AR04

Bell
Canada

Annual Report 1976

Corporate Information

Bell Canada
1050 Beaver Hall Hill
Montreal, Quebec
H3C 3G4

1977 Annual Meeting
The Annual and Special General Meeting of the Shareholders will take place at 2:00 p.m., Tuesday, April 19, 1977, in Le Grand Salon,
The Queen Elizabeth Hotel,
900 Dorchester Boulevard West
Montreal, Quebec

Trustee for Bonds
Canada Permanent Trust Company

Trustees for Debentures
The Royal Trust Company

Morgan Guaranty Trust
Company of New York

Transfer Offices for Bonds and Debentures
The Royal Trust Company
Montreal; Toronto;
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Morgan Guaranty Trust
Company of New York,
New York, N.Y.
(For debentures issued in the United States)

Listing of Stock
Common Shares and Preferred Shares:

Canada
Montreal, Toronto, Vancouver
Stock Exchanges

Common Shares:

Belgium
Brussels Stock Exchange
England
London Stock Exchange
France
Paris Stock Exchange
Germany
Frankfurt am Main, Dusseldorf
Stock Exchanges
Switzerland
Zurich, Basle, Geneva
Stock Exchanges
The Netherlands
Amsterdam Stock Exchange
United States
New York Stock Exchange

Transfer Offices for Stock
Company Offices —
1050 Beaver Hall Hill
Montreal
393 University Ave.
Toronto

The Royal Trust Company
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Morgan Guaranty Trust
Company of New York,
New York, N.Y.

Registrar for Stock
Montreal Trust Company
Montreal; Toronto;
St. John's, Nfld; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Morgan Guaranty Trust
Company of New York,
New York, N.Y.

Bell Canada
Ninety-seventh Annual Report
Year ended December 31, 1976

Sur demande, le secrétaire vous fera volontiers parvenir un exemplaire français du rapport annuel.

Bell Canada, supported by its manufacturing and research affiliates, provided the basic transmission facilities for the Montreal Olympics. It was through this system that television, radio and newspaper coverage of the Montreal Olympics was delivered to a world-wide audience of close to one billion people.

Bell Canada
Consolidated

Financial Highlights

	1976	1975	% Increase
Revenues (thousands of dollars)			
operating revenues	**$2,056,684**	$1,790,971†	14.8
sales revenues	**1,101,874**	1,020,715	8.0
total	**3,158,558**	2,811,686†	12.3
Income before extraordinary items			
(thousands of dollars)	**$ 287,524**	$ 266,784	7.8
per common share	**$ 6.45**	$ 6.20	4.0
assuming full conversion of convertible preferred shares and exercise of warrants	**$ 5.97**	$ 5.87	1.7
Dividends per common share	**$ 3.58**	$ 3.44	4.1
Equity per common share (at December 31)	**$56.58**	$53.89	5.0

†*Restated — see note 1 of the Notes to Financial Statements.*

Contents

A. Jean de Grandpré

Report of the Directors

For Bell Canada, 1976 was a challenging and, in many ways, a difficult year. Economic growth was slower than expected. Anti-inflation controls created uncertainties and dislocations. The demand for capital to provide essential service facilities was unrelenting and, at the same time, competition for capital dollars remained intense. And yet, in spite of these and other problems, Bell Canada continued to grow, innovate, make progress and play an essential role in a multitude of projects, large and small.

Consolidated Results

Consolidated earnings per share and income before extraordinary items continued to improve in 1976. This, in a year of economic sluggishness, was due to a combination of effective sales stimulation, productivity improvement, higher telephone rates and firm cost controls.

Consolidated earnings before extraordinary items amounted to $287.5 million or $6.45 per common share, compared to $266.8 million or $6.20 respectively in 1975. If all convertible preferred shares had been converted to common stock and warrants to purchase Bell Canada common stock had been exercised, the fully diluted consolidated earnings per common share before extraordinary items would have been $5.97 in 1976, compared to $5.87 in 1975. Consolidated shareholders' equity at 1976 year-end was $56.58 per Bell Canada common share, compared to $53.89 the previous year.

Bell Canada no longer holds a majority of the common shares of The New Brunswick Telephone Company, Limited, and the Maritime Telegraph and Telephone Company, Limited. Because of the magnitude of its own capital needs, Bell Canada did not paticipate in common share issues carried out by these two associated companies during 1976. As a result, Bell Canada now holds 41.1 per cent of the former's common shares, and 41.0 per cent of the latter's.

Because of these ownership changes, Bell Canada's investments in N B Tel and M T & T are now carried in the financial statements beginning on page 11 on an equity basis instead of being fully consolidated.

Bell Canada did not participate in the Newfoundland Telephone Company's issue of common shares in June, thereby reducing its holdings in that company from 99.8 to 78.2 per cent.

Common dividends were increased for the fifth successive year. This was in line with the Company's objective of helping shareholders to maintain the integrity of their investment in the face of inflation, as well as making Bell Canada shares attractive to new investors. The Anti-Inflation Board deferred approval of a requested increase in April but later authorized the Company to raise the common dividend payable in October by seven cents to 93 cents quarterly. This brought the indicated annual rate to $3.72, compared with $3.44 previously.

Late in January, 1977 Bell Canada was informed by the Anti-Inflation Board that it would not intervene if the Company decided to declare a further increase in the quarterly dividend rate from 93 cents to $1.02 on the common shares outstanding. This increase, payable on April 15, was approved by the Company's Board of Directors in February, bringing the new indicated annual rate to $4.08.

Consolidated revenues increased by 12.3 per cent to $3,158.6 million in 1976. Factors contributing to this result included rate increases granted to telephone companies during the year, slower but continued growth in both local and long distance revenues, and expansion in manufacturing and distributing activities. Northern Telecom again established a new record level of sales, with revenues reaching $1,112.0 million, an increase of 9.2 per cent over 1975.

Consolidated operating expenses and cost of sales and expenses were

$2,456.5 million, up 13.6 per cent over 1975. This reflected increases in wages and benefits for a larger number of employees, a continuing escalation in the prices paid for goods and services and higher depreciation and maintenance expenses due to the growth of investment in new facilities. The effect of these cost increases was offset appreciably by efficiencies stemming from productivity improvements. Consolidated income before extraordinary items improved 7.8 per cent from $266.8 million in 1975 to $287.5 million in 1976.

Financial Initiatives

To improve financing flexibility and avoid putting too much stress on the Canadian capital market, Bell Canada has taken steps to diversify its participation in other capital markets. On August 18 its common shares were listed on the New York Stock Exchange, one of thirteen on which they are now traded in Canada, the United States and Europe. A program to inform investors outside Canada about the Company has been under way for some time.

During 1976 debentures were sold for the first time in both the United States and Europe. In March U.S.$200 million of Bell Canada Debentures were sold in the United States. This was the first public sale of Bell Canada debt securities in that country. In the Company's first issue in the European debt market, U.S.$ 60 million of Debentures were sold.

In Canada a straight preferred issue of $70 million was completed in the fall and, following the filing of a preliminary prospectus in December, an issue of Debentures of $150 million was offered in January, 1977.

Subsidiaries

In August Northern Telecom increased its equity holdings in Bell-Northern Research to 70 per cent through the purchase of additional treasury shares. Bell Canada holds the remaining 30 per cent. The new balance reflects the increased proportion of BNR's research and development work now undertaken on behalf of Northern Telecom.

Two new subsidiaries of interest in terms of future development and growth were formed during the year.

The first of these was Bell Canada-International Management, Research and Consulting Limited (BCI). In recent years more and more foreign telecommunications organizations have been paying Bell Canada to share its telecommunications expertise with them. In 1976, for example, Bell Canada undertook a million-dollar contract with NATO to audit its fourteen-nation telecommunications network in terms of its requirements over the next ten years. The formation of BCI will provide greater flexibility in serving international clients in the years ahead.

The second new subsidiary is B-N Software Research Inc., which is 51 per cent owned by Northern Telecom and 49 per cent by Bell Canada. It will specialize in the research and development of computer software as applied to the telecommunications industry. Because of the growing importance of computers in the industry's internal operations and the need for increasingly sophisticated programs for electronic and digital switching, the creation of this new company is a significant step in enhancing Bell Canada's ability to meet the needs of the future.

Charter Amendments

On December 1 a Bill to amend Bell Canada's charter was introduced in Parliament.

One of its basic objectives was to raise the Company's maximum authorized capital from $1.75 billion to $5 billion. Another was to modernize the Company's Act of Incorporation to allow Bell Canada the same range of financing options and arrangements that are available to its competitors in the financial marketplace. These would include the general borrowing power already granted to most companies, authority to split the stock if desirable and permission to issue capital stock without having to obtain from the regulatory agency specific prior approval of the terms of each issue.

Director, Executive Changes

The dean of Bell Canada's Board of Directors, Herbert H. Lank, of Westmount, Que., retired in April, after having contributed significantly to key corporate policies over a period of 16 years. At the same time Donald McInnes, Q.C., of Halifax, senior partner of McInnes, Cooper and Robertson, retired after nine years on the Board. His contribution will also be missed. New directors elected were Paul H. Leman, O.C., of Outremont, Que., President of Alcan Aluminium Limited, and James C. Thackray, of Montreal, Bell Canada President.

Several senior executive changes became effective in May. Robert C. Scrivener retired from Bell Canada and was elected Chairman and Chief Executive Officer of Northern Telecom. A. Jean de Grandpré, formerly President, succeeded Mr. Scrivener as Chairman and Chief Executive Officer of Bell Canada.

John C. Lobb resigned as Chairman of Northern Telecom Limited to become Chairman and Chief Executive Officer of Northern Telecom, Inc., with headquarters in Nashville, Tennessee.

James C. Thackray succeeded Mr. de Grandpré as President of Bell Canada. Frederick E. Ibey, formerly Vice-President (Operations Staff) of the Company's Ontario Region, succeeded Mr. Thackray as Executive Vice-President (Operations), with headquarters in Montreal.

Harold E. Harris, Bell Canada's Treasurer since 1970, retired last spring after more than forty-seven years of service to the Company.

Promotions to Officer rank in Bell Canada announced in 1976 were: J. Stuart Spalding, who succeeded Mr. Harris as Treasurer; W. Brian Hewat, Claude St-Onge and John E.

Sinclair, who were appointed Vice-Presidents.

Comments

The election in November of a Parti Québécois administration in Quebec introduced another element of uncertainty into the Canadian political and economic scene, and investors were quick to raise questions about the impact this might have on the ownership and future prospects of Bell Canada. However, there have been clear indications that the priorities of the Government of Quebec do not include the nationalization or expropriation of Bell Canada's assets in Quebec. It should also be noted that Bell operates an interprovincial communications network declared to be for the general advantage of Canada, holds a federal charter and is under federal jurisdiction.

Some uncertainty has developed about the position of the Government of Canada with respect to the integration of research, manufacturing and service in our industry, and this has become a source of both confusion and concern.

A study issued in June, 1974 by the Department of Communications concluded that Canada's telecommunications carriers have been well served by the vertically integrated manufacturing industry, and that fragmentation would weaken this predominantly Canadian industry and lead to both higher equipment prices and less efficient operations. However, late in January, 1977 the Company received from the Restrictive Trade Practices Commission in Ottawa a statement of material suggesting that the public interest might best be served by dissolving the Company's ownership ties with Northern Telecom.

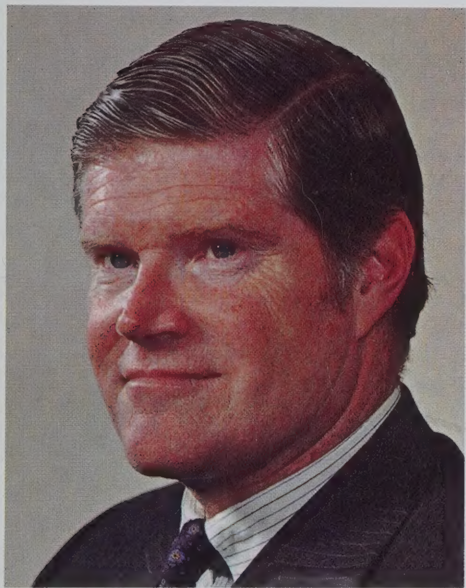
Should the Commission decide to proceed further on this matter, through public hearings or otherwise, I am convinced that the advantages of vertical integration to the Canadian public and the national economy, in both domestic and export markets, will be clearly demonstrated. Meanwhile, there is a real need for a clear statement of government policy on this matter.

Never has the role of telecommunications been more vitally important to the functioning of a modern industrial economy. I have no doubt that the dedicated men and women of Bell Canada will continue to respond as they have in the past to the challenge of change and to make a significant contribution to the development and vitality of our country.

For the Board of Directors,

Chairman

February 23, 1977



James C. Thackray

President's Remarks

Bell Canada's non-consolidated earnings per common share, before extraordinary item, amounted to $5.23 in 1976, up 40 cents over 1975. Included in these earnings were dividends from investments in subsidiaries and associated companies, which contributed 63 cents in 1976 and 65 cents in 1975 per Bell Canada common share.

Operating revenues for the year were $1.9 billion, an increase of 14.3 per cent over 1975. Local service revenues grew by $112.0 million or 12.8 per cent, while long distance revenues were up by $114.1 million or 15.1 per cent.

Record levels were experienced both in the number of customers served and in long distance calls. During the year the number of telephones in service passed the eight-million mark. At year-end this had risen to 8.3 million. Long distance calls increased by 7.6 per cent, for a 1976 total of 528 million.

Operating expenses, at $1.4 billion, rose 16.7 per cent during the year, largely as a result of increased costs for labour and materials. Although there was evidence of some easing of inflationary pressures, the Company still had to pay substantially higher prices in 1976 for electricity, fuel, postage and a broad range of other commodities and services.

The non-consolidated rate of return on average total capital, before extraordinary item, was 8.65 per cent, compared to 8.46 per cent in 1975. The rate of return on average common equity, before extraordinary item, was 10.06 per cent in 1976 and 9.97 per cent the previous year.

Capital Expenditures

Bell Canada invested $900 million in 1976 in order to meet the service requirements of customers. This was an increase of 11.2 per cent over 1975.

The largest portion of the capital budget, $635 million, or 70.5 per cent, was employed in building and installing the facilities needed to handle existing and new service and in relocating services for customers who moved their place of residence or business.

Some 17.4 per cent of the budget was devoted to improving existing plant, modernizing service, and introducing new measures to improve operating efficiency. Replacement of worn out and damaged plant and relocation of facilities because of road and bridge construction took up $29 million, or 3.2 per cent.

Expenditures for construction of administration buildings, including work centres, and for necessary work and office equipment such as motor vehicles, furniture and computer

Vital to Bell Canada's leadership in telecommunications is the integration of service, manufacturing and research into one well co-ordinated enterprise.

The Phone Centre and Téléboutique concept offers customers a handy and comfortable way of shopping for telephone service.

The advanced business services provided by the Company are vital to the functioning of a modern industrial economy. The console pictured is part of the SG-1 electronic private automatic branch exchange, one of the best selling systems of its kind in North America.

equipment, required $80 million, or 8.9 per cent.

The $6 billion in capital expenditures forecast for the next five years are necessary to enable the Company to supply the services that customers require for their homes and businesses. It is absolutely vital to maintain the Company's ability to raise this new capital on reasonable terms.

Operations Highlights

There was a general improvement in the quality of Bell Canada's services in 1976. The Company's capacity to respond rapidly to requests for new installations reversed a deteriorating trend in 1975, cutting in half the number of held orders outstanding at year-end. In the long distance network, congestion during peak calling periods was reduced through the installation of additional circuit and switching equipment. Other improvements included faster operator answer for both long distance and directory assistance calls, and a reduction in the customer trouble report rate.

Today's advances in telecommunications were strikingly demonstrated August 10 when the 100th anniversary of the world's first long distance call was commemorated at the Bell Homestead in Brantford, Ontario. In contrast to the one-way telephone call on August 10, 1876, made by Alexander Graham Bell to Paris — only eight miles away — Bell Canada and Telesat Canada combined facilities to send a closed-circuit television program of the ceremonies 100,000 miles through space via telecommunications satellites.

One of the highlights of 1976 was the Summer Olympics in Montreal. Bell Canada contributed significantly to the success of the two-week event by providing the extensive telecommunications, television and radio facilities needed for internal operations and to inform the world about the events. This installation, one of the most complex telecommunications projects ever undertaken in North America, met all performance objectives.

In recent years Bell Canada has applied computer techniques to a wide range of operations, including billing, administrative and inventory activities. During 1976 another application of advanced computer techniques resulted in the opening of the world's first fully-automated telephone repair service bureau in Ottawa. This will mean faster diagnosis and repair of service troubles, along with lower operating costs. Its design and manufacture are entirely Canadian through the joint efforts of Bell-Northern Research, Northern Telecom and Bell Canada.

Northern Telecom continued to provide Bell Canada with access to some of the most modern telecommunications equipment available anywhere. At year-end Bell had equipped 80 central offices with SP-1, an electronic stored-program switching system with distinct advantages in flexibility, efficiency and costs. Many more installations were planned.

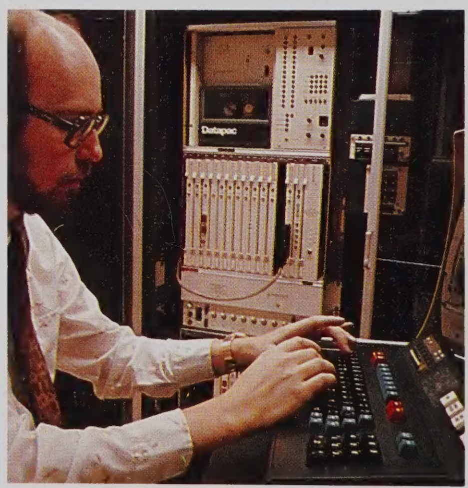
Another significant Northern Telecom innovation made available to Bell Canada customers was the SL-1 digital business communications system, one of the first fully electronic private branch exchanges to go on the market.

At Bell-Northern Research, work was under way on the design of other new digital equipment aimed at maintaining Northern Telecom's competitive position and meeting the needs of telecommunications customers at home and abroad in the years ahead.

Data Communications

During the year significant advances were made by Bell Canada in implementing improved and enlarged data communications services. Leadership was provided by the Company's Computer Communications Group, which has been dedicated to data communications products and services since 1971.

While Northern Telecom manufactures the new products and systems required by today's customers, another affiliate, Bell-Northern Research, is developing the innovative technology on which tomorrow's customers will depend.



One of the first systems of its kind anywhere, Datapac makes it possible for users to share a universal data network in much the same way customers use a single telephone network for voice communications.

The world's first fully automated telephone repair system can monitor close to 600,000 telephones, more than twice the capability of the previous system. Problems which may have taken hours or days to locate can now be corrected while the customer stays on the line.

In mid-November, the Computer Communications Group filed specific rates for two new services, Datapac 3000 and Datapac 3101. Datapac is Canada's first packet-switched data network, and one of the first in the world.

As an internal trial, the first Datapac applications were put into operation late in the year for two time-sharing systems that linked terminals across Canada to large computers. Commercial service will be available in the spring of 1977.

The development and implementation of Datapac have been the result of efforts by Bell Canada in association with Bell-Northern Research, Northern Telecom and Trans-Canada Telephone System member companies, with co-ordination by the Computer Communications Group.

Integral to the operation of a packet-switched network is a method of gaining access to the network. Early in 1976, discussions throughout Canada and farther afield with computer users, manufacturers, universities, associations and carriers focused on the proposal by the Computer Communications Group for a Standard Network Access Protocol (SNAP) for access to data networks. The proposed protocol that evolved from these consultations, called X.25, was ratified in late 1976 as the international standard by the International Telegraph and Telephone Consultative Committee.

Regulation

In April regulatory responsibility for Bell Canada was transferred from the Canadian Transport Commission to the Canadian Radio-television and Telecommunications Commission (CRTC).

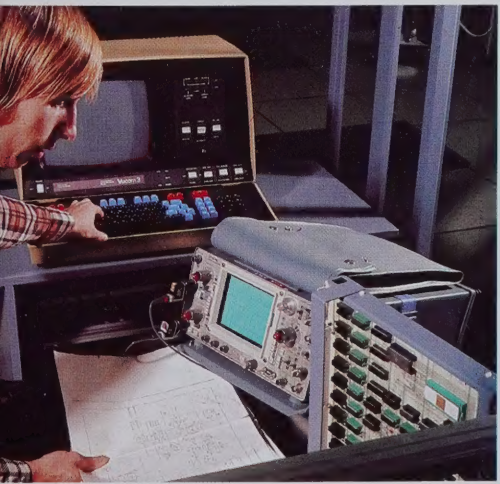
On November 3 the Company applied to the CRTC for rates that were designed to produce an estimated 6.5 per cent increase in 1977 revenues if in effect from March 15.

Bell Canada has an obligation to provide service, and the public rightly expects it to do so. Unlike most other companies, it cannot defer capital investment if economic prospects appear unfavorable without creating an immediate negative impact on the social and business life of the communities affected. To meet the needs of customers, the Company's capital program will approach $1 billion in 1977 and a total of about $6 billion in the next five years. Nearly half of these funds must come from external financing, and this requires earnings and financial ratios that will be attractive to investors.

In 1974, the Canadian Transport Commission decided that a reasonable rate of return on common equity for Bell Canada would be 11 to 12 per cent. The minimum of that range has not been reached. In today's circumstances it is estimated that a reasonable rate of return on the Company's common equity would be in the range of 13 to 15 per cent. However, taking into account the fight against inflation and the need for restraint, Bell Canada applied for an increase in rates that was designed to produce in 1977 a 12 per cent return on common equity, the level approved more than two years ago.

Included in the application is a proposal to improve rural telephone service by reducing to four the maximum number of parties per line. Starting in 1977, the project would take five years to complete.

The Company also proposes to change and extend weekend discounts for long distance calls within Ontario and Quebec. The plan would provide a uniform ⅔ discount from Saturday noon to Sunday at 6 p.m., replacing existing discounts ranging from nil on Saturday afternoon to ¾ on Sunday morning and afternoon. This is designed to relieve the overloading of long distance circuits on Sunday by spreading the traffic over a longer weekend discount period.



Telephone lines come together in switching centres. The latest development in switching technology is Northern Telecom's Digital Multiplex System, part of which is being tested here. DMS handles more lines, serves a bigger area and takes up only a fraction of the space older systems require.

These desk telephones are being assembled for the SL-1, one of the first business communications systems to use digital switching techniques. SL-1 in its first year has become a marketing success in the United States and Canada and is licensed for production in the United Kingdom and Europe.

The LD-4 cable, shown in an advanced stage of production, stretches 415 miles between Toronto, Montreal and Ottawa. The cable has a capacity of 20,000 simultaneous two-way conversations, almost twenty times the volume carried by conventional cable facilities.

Public hearings on the application were scheduled to begin in March.

Employee Relations

At December 31 Bell Canada had approximately 48,100 employees. Most of the 36,000 non-management personnel were represented by three unions.

In November new one-year contracts (effective from December 1) were signed with the Canadian Telephone Employees' Association, representing approximately 15,000 clerical and communications sales personnel.

A three-year contract with the Communications Union Canada covering some 8,000 operators and dining service employees expired in November. Negotiations with the CUC began in October and continued until early December when the CUC decided to seek conciliation assistance from the federal Department of Labour. A conciliation officer was appointed and meetings got under way in January.

In April, 1976, following a representation vote, the Communications Workers of Canada became the bargaining agent for approximately 13,000 craft and services employees. Negotiations on a new contract were undertaken shortly thereafter. In August the Company asked for conciliation assistance from the Department of Labour. When subsequent negotiations aided by a conciliation officer failed to produce an agreement, a conciliation commissioner was appointed to assist in further negotiations. After meetings with Bell Canada and the CWC, the commissioner filed a report with the Minister of Labour in December.

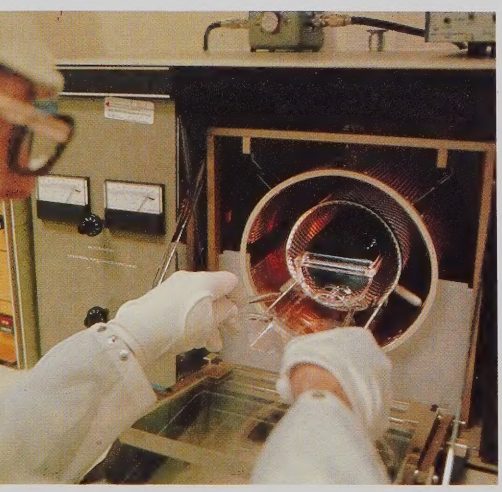
The Company accepted the report and made an offer incorporating its proposals. The union then submitted the offer to a membership vote. Late in January, the CWC announced that its members had voted in favor of accepting the Company's offer, and a contract was signed on February 4.

Comments

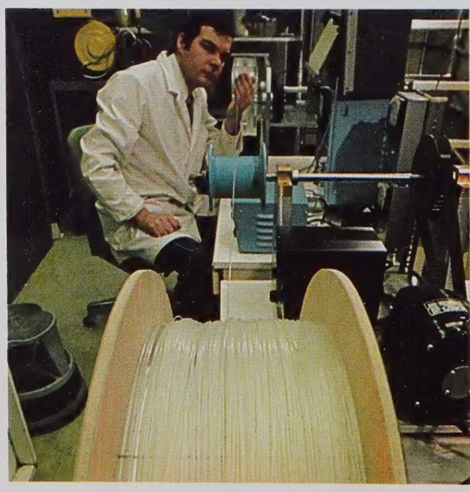
Anti-inflation controls, new regulatory groundrules and changing political situations are continuing to create uncertainties in the present environment. Of particular concern is the current slowdown in the economy and its effect on prospects for future levels of economic activity. There is a clear and present need for Governments to strengthen the climate for recovery by acting in a manner which will recognize and encourage enterprise and investment.

I acknowledge with sincerity and gratitude the way in which the talented men and women of Bell Canada have again demonstrated their commitment to good service in the face of many difficulties. Their efforts have made a positive contribution both to the progress of the Company and to Canada's economic and social life during 1976. Their achievements deserve to be recognized and supported.

President



Using plasma etching apparatus as shown here, BNR has achieved a major breakthrough in the fabrication of integrated circuits for telecommunications applications. The new etching technique reduces wastage during the production process and allows better circuit performance at a lower cost than earlier methods.



Glass fibre, because of its capacity for carrying a tremendous volume of communications in a very small cable, holds high promise for congested downtown areas. BNR, a leader in this new technology, developed and installed an operational system in February, 1976, for the Department of National Defence in Ottawa.

The electronic equipment being ferried to Moose Factory General Hospital is part of an experiment which links the northern medical post by Hermes satellite with specialists at a London, Ontario hospital 700 miles south. The BNR designed system allows staff related to both hospitals to consult on aspects of diagnosis, treatment and surgery.

Officers*

Chairman of the Board and Chief Executive Officer
A. Jean de Grandpré, Q.C.

President
James C. Thackray

Executive Vice-Presidents
J. V. Raymond Cyr
Quebec Region
Frederick E. Ibey
Operations
Gordon E. Inns
Ontario Region
Orland Tropea
Administration

Vice-Presidents
Wilfred D. E. Anderson
Operations Development
Harry Bowler
Finance
J. Robert Brûlé
Operations Staff, Quebec Region
Robert W. Crowley
Toronto Area
Claude Duhamel
Administration, Quebec Region
John H. Farrell
Regulatory Matters
Charles A. Harris
Public and Environmental Affairs
George L. Henthorn
Comptroller
W. Brian Hewat
Operations Performance
John A. McCutcheon
Intercorporate Policy
Andrew M. McMahon
Computer Communications
Léonce Montambault
Montreal Area
Harry Pilkington
Personnel
Hubert A. Roth
North/East Area
Claude St-Onge
Quebec Provincial Area
John E. Skinner
Systems
R. Douglas Sloane
Operations Staff, Ontario Region
John F. Stinson
Network Services
Robert N. Washburn
South/West Area

General Counsel
Guy Houle

Secretary
James T. Moore

Treasurer
J. Stuart Spalding

*as of December 31, 1976

Directors

W. M. Vacy Ash, O.C.
Toronto, Ontario
Company Director
Elected March 10, 1966

Marcel Bélanger, O.C., C.A.
Quebec, Quebec
Partner, Bélanger, Dallaire, Gagnon & Associés
Elected March 20, 1969

G. Allan Burton, D.S.O., E.D.
Milton, Ontario
Chairman of the Board and Chief Executive Officer, Simpsons, Limited
Appointed May 23, 1974

A. Jean de Grandpré, Q.C.
Outremont, Quebec
Chairman of the Board and Chief Executive Officer, Bell Canada
Appointed July 26, 1972

J. Douglas Gibson, O.B.E.
Toronto, Ontario
Chairman of the Board, The Consumers' Gas Company
Elected March 25, 1970

H. Clifford Hatch
Windsor, Ontario
President and Chief Executive Officer, Hiram Walker-Gooderham & Worts Limited
Elected April 9, 1974

Helen S. Hogg, C.C.
Richmond Hill, Ontario
Professor Emeritus, University of Toronto
Elected March 21, 1968

James W. Kerr
Toronto, Ontario
Chairman and Chief Executive Officer, TransCanada PipeLines Limited
Appointed August 26, 1970

Herbert H. Lank
Westmount, Quebec
Company Director
Appointed April 27, 1960
Retired April 20, 1976

Paul H. Leman O.C.
Outremont, Quebec
President, Alcan Aluminium Limited
Elected April 20, 1976

John C. Lobb
Ligonier, Pennsylvania
Chairman of the Board and Chief Executive Officer, Northern Telecom, Inc.
Appointed October 24, 1973

Donald McInnes, Q.C.
Halifax, Nova Scotia
Senior Partner, McInnes, Cooper & Robertson
Elected March 16, 1967
Retired April 20, 1976

E. Neil McKelvey, Q.C.
Saint John, New Brunswick
Partner, McKelvey, Macaulay, Machum & Fairweather
Elected April 3, 1973

John H. Moore
London, Ontario
Chairman of the Board, Brascan Limited
Elected March 10, 1966

Gérard Plourde
Montreal, Quebec
Chairman of the Board and Chief Executive Officer, U A P Inc.
Appointed January 1, 1973

Louis Rasminsky, C.C., C.B.E.
Ottawa, Ontario
Chairman of the Board of Governors, International Development Research Centre
Appointed September 26, 1973

The Hon. John P. Robarts, P.C., C.C., Q.C.
Toronto, Ontario
Member of Stikeman, Elliott, Robarts & Bowman
Appointed June 23, 1971

H. Rocke Robertson, C.C., M.D.
Mountain, Ontario
Company Director
Elected July 8, 1965

Lucien G. Rolland
Westmount, Quebec
President and General Manager, Rolland Paper Company, Limited
Elected July 8, 1965

Robert C. Scrivener
Montreal, Quebec
Chairman of the Board and Chief Executive Officer, Northern Telecom Limited
Appointed November 1, 1967

James C. Thackray
Westmount, Quebec
President, Bell Canada
Elected April 20, 1976

Louise Brais Vaillancourt
Outremont, Quebec
President, La Corporation de l'Hôpital Marie Enfant
Appointed January 1, 1975

Committees of the Board of Directors *

Audit Committee
- M. Bélanger — Chairman
- A. J. de Grandpré
- H. C. Hatch
- E. N. McKelvey
- J. H. Moore
- J. C. Thackray

Executive Committee
- A. J. de Grandpré — Chairman
- P. H. Leman
- J. H. Moore
- G. Plourde
- L. Rasminsky
- H. R. Robertson
- J. C. Thackray

Management Resources and Compensation Committee
- M. Bélanger
- G. A. Burton
- J. D. Gibson
- H. C. Hatch
- J. W. Kerr — Chairman

Pension Fund Policy Committee
- W. M. V. Ash
- J. D. Gibson — Chairman
- E. N. McKelvey
- L. Rasminsky
- J. P. Robarts
- L. G. Rolland

Social and Environmental Affairs Committee
- A. J. de Grandpré
- H. S. Hogg — Chairman
- J. P. Robarts
- H. R. Robertson
- J. C. Thackray
- L. B. Vaillancourt

* as of December 31, 1976

Bell Canada
and Subsidiary Companies

Consolidated Income Statement (Note 1)

	(thousands of dollars)	
	Year 1976	Year 1975†
Operating revenues		
Local service	**$1,028,520**	$ 909,515
Long distance service	**918,745**	795,789
Miscellaneous — net	**109,419**	85,667
Total operating revenues	**2,056,684**	1,790,971
Operating expenses	**1,483,825**	1,268,549
Net operating revenues	**572,859**	522,422
Sales revenues — manufacturing and distributing	**1,101,874**	1,020,715
Less: Cost of sales	**789,061**	738,133
Selling, general and administrative expenses	**121,814**	104,684
Other expenses	**61,768**	50,820
	972,643	893,637
Net sales revenues	**129,231**	127,078
Total net revenues	**702,090**	649,500
Other income		
Interest charged to construction	**15,559**	18,249
Equity in net income of associated companies (note 2)	**11,705**	8,357
Miscellaneous	**29,296**	11,652
Total other income	**56,560**	38,258
Income before underlisted items	**758,650**	687,758
Interest charges		
Interest on long term debt	**181,203**	167,923
Other interest	**10,378**	7,221
Total interest charges	**191,581**	175,144
Income before income taxes, minority interest and extraordinary items	**567,069**	512,614
Income taxes (note 3)	**251,774**	232,389
Income before minority interest and extraordinary items	**315,295**	280,225
Minority interest	**27,771**	13,441
Income before extraordinary items	**287,524**	266,784
Extraordinary items (note 4)	**2,188**	50,578
Net income	**289,712**	317,362
Dividends on preferred shares	**28,847**	24,845
Net income applicable to common shares	**$ 260,865**	$ 292,517
Earnings per common share* (note 6)		
— before extraordinary items	**$6.45**	$6.20
— extraordinary items	**$0.05**	$1.30
— after extraordinary items	**$6.50**	$7.50
Assuming full conversion of convertible preferred shares and exercise of warrants		
— before extraordinary items	**$5.97**	$5.87
— extraordinary items	**$0.04**	$1.12
— after extraordinary items	**$6.01**	$6.99
Dividends declared per common share	**$3.58**	$3.44
*Based on average common shares outstanding (thousands)	**40,106**	38,998

†*Restated — see note 1 of the Notes to Financial Statements.*

Bell Canada
and Subsidiary Companies

Consolidated Balance Sheet

Assets

	(thousands of dollars)	
	December 31 1976	December 31 1975†
Telecommunication property — at cost		
Buildings, plant and equipment	**$7,159,177**	$6,412,819
Less: Accumulated depreciation	**2,095,469**	1,840,007
	5,063,708	4,572,812
Land	**49,056**	46,367
Plant under construction	**253,936**	216,585
Material and supplies	**105,103**	78,752
	5,471,803	4,914,516
Manufacturing and distributing property — at cost		
Buildings, plant and equipment	**356,679**	331,360
Less: Accumulated depreciation	**193,584**	184,129
	163,095	147,231
Land	**10,782**	7,031
	173,877	154,262
	5,645,680	5,068,778
Investments		
Associated companies — at equity (note 1)	**105,825**	97,223
Other	**2,245**	2,245
	108,070	99,468
Current assets		
Cash and temporary cash investments — at cost (approximates market)	**194,893**	196,903
Accounts receivable — principally from customers and agents (including $5,224 (1975 — $5,603) from associated companies)	**376,394**	382,510
Inventories (note 7)	**227,470**	229,346
Other (principally prepaid expenses)	**50,894**	49,556
	849,651	858,315
Deferred charges	**53,637**	43,251
Total assets	**$6,657,038**	$6,069,812

On behalf of the Board of Directors:

Marcel Bélanger, Director

J. Douglas Gibson, Director

Liabilities and Shareholders' Equity

	(thousands of dollars)	
	December 31 1976	December 31 1975†
Shareholders' equity		
Capital stock (note 8)		
Preferred shares	**$ 376,997**	$ 343,211
Common shares	**1,015,509**	994,092
Premium on capital stock	**460,878**	441,213
Contributed surplus	**15,290**	15,290
Retained earnings	**806,449**	692,215
	2,675,123	2,486,021
Minority interest in subsidiary companies		
Preferred shares	**20,741**	19,145
Common shares	**140,402**	109,170
	161,143	128,315
Long term debt (note 9)	**2,421,927**	2,248,567
Current liabilities		
Accounts payable	**310,041**	247,021
Advance billing for service	**37,461**	32,664
Dividends payable	**43,533**	39,137
Taxes accrued	**37,012**	60,695
Interest accrued	**44,820**	38,304
Debt due within one year (note 10)	**187,598**	145,000
	660,465	562,821
Deferred credits		
Income taxes	**719,354**	626,198
Other	**19,026**	17,890
	738,380	644,088
Commitments (note 11)		
Total liabilities and shareholders' equity	**$6,657,038**	$6,069,812

†*Restated — see note 1 of the Notes to Financial Statements.*

G. L. Henthorn, Vice-President & Comptroller

Consolidated Statement of Premium on Capital Stock

	(thousands of dollars)	
	Year 1976	Year 1975
Balance at beginning of year	**$441,213**	$384,330
Premium on common shares issued during the year	**19,665**	56,883
Balance at end of year	**$460,878**	$441,213

Consolidated Statement of Contributed Surplus

	(thousands of dollars)	
	Year 1976	Year 1975
Balance at beginning of year	**$ 15,290**	$ 15,549
Decrease arising on consolidation from the issues of shares by subsidiaries	**—**	259
Balance at end of year	**$ 15,290**	$ 15,290

Consolidated Statement of Retained Earnings

	(thousands of dollars)	
	Year 1976	Year 1975
Balance at beginning of year	**$692,215**	$537,331
Net income	**289,712**	317,362
Excess of par value over cost of preferred shares purchased for cancellation (note 8)	**203**	179
	982,130	854,872
Deduct:		
Dividends — Preferred shares	**28,847**	24,845
— Common shares	**143,969**	135,418
	172,816	160,263
Expenses of issues of capital stock	**2,865**	2,394
	175,681	162,657
Balance at end of year	**$806,449**	$692,215

Consolidated Statement of Changes in Financial Position

	(thousands of dollars)	
	Year 1976	Year 1975†
Source of funds		
Operations —		
Income before extraordinary items	**$ 287,524**	$ 266,784
Items not affecting current funds —		
Depreciation	**427,327**	380,739
Deferred income taxes	**93,156**	85,171
Interest charged to construction	**(15,559)**	(18,249)
Other — net	**33,462**	17,854
Total from operations	**825,910**	732,299
Extraordinary item (note 4)	**2,188**	—
Net proceeds from the sale by Bell Canada of common shares of a subsidiary (note 4)	**—**	118,112
Proceeds from long term debt	**279,333**	234,004
Proceeds from preferred shares	**68,248**	123,336
Proceeds from issues of shares by subsidiaries to minority shareholders	**11,748**	13,982
Issue of common shares upon conversion of convertible preferred shares	**34,655**	112,258
Miscellaneous	**33,023**	17,216
Decrease in working capital	**106,308**	—
	$1,361,413	$1,351,207
Disposition of funds		
Capital expenditures —		
Gross capital expenditures	**$ 994,878**	$ 895,295
Deduct: charges not requiring funds	**(26,064)**	(27,981)
Increase (decrease) in material and supplies	**26,351**	(4,778)
Net expenditures	**995,165**	862,536
Extraordinary item (note 4)	**—**	2,429
Dividends by Bell Canada	**172,816**	160,263
Dividends by subsidiaries to minority shareholders	**8,600**	4,147
Reduction of long term debt	**112,823**	112,275
Acquisition of investments	**34,582**	8,234
Conversion of preferred shares	**34,684**	112,261
Miscellaneous	**2,743**	3,121
Increase in working capital	**—**	85,941
	$1,361,413	$1,351,207
The increase (decrease) in working capital is accounted for by —		
Increase (decrease) in current assets:		
Cash and temporary cash investments	**$ (2,010)**	$ 141,347
Accounts receivable	**(6,116)**	61,132
Inventories	**(1,876)**	(26,554)
Other	**1,338**	4,336
(Increase) decrease in current liabilities:		
Accounts payable	**(63,020)**	(29,364)
Advance billing for service	**(4,797)**	(3,907)
Dividends payable	**(4,396)**	(6,997)
Taxes accrued	**23,683**	(16,660)
Interest accrued	**(6,516)**	(4,400)
Debt due within one year	**(42,598)**	(32,992)
Increase (decrease) in working capital, as above	**$ (106,308)**	$ 85,941

†*Restated — see note 1 of the Notes to Financial Statements.*

Notes to Financial Statements

1. Accounting policies

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Bell Canada and its telephone subsidiary and associated companies are subject to regulation, including examination of accounting practices, by their respective regulatory authorities. Bell Canada is regulated on the basis of its non-consolidated financial statements in which its investments in subsidiary and associated companies are carried at cost. The system of accounts and accounting practices are similar to those being used in the telecommunication industry.

Consolidation

The accounts of companies in which Bell Canada owns more than 50% of the outstanding common shares have been fully consolidated and the investments in associated companies (50% or less and 20% or more) have been accounted for by the equity method. The investments in Maritime Telegraph & Telephone Company, Limited (1) and The New Brunswick Telephone Company, Limited were 41.0% and 41.1% respectively at December 31, 1976. The investments in these associated companies which were fully consolidated in 1975 are now accounted for by the equity method since Bell Canada's ownership of common shares was reduced to less than 50% in the third quarter of 1976. For comparative purposes, the 1975 figures and the first two quarters of 1976 have been restated to reflect the equity accounting for these investments; however, this restatement had no effect on the net income. The associated companies of Bell Canada at December 31, 1976 were Maritime Telegraph & Telephone Company, Limited, The New Brunswick Telephone Company, Limited, Telesat Canada, SOTEL INC. and National Telephone Directory Corporation.

The companies in which Bell Canada had a direct investment of more than 50% of common shares at December 31, 1976 were:

	%
Northern Telecom Limited (2)	69.2
Newfoundland Telephone Company Limited	78.2
Northern Telephone Limited	99.7
Télébec Ltée	100
Lièvre Valley Telephone Company	100
The Capital Telephone Company Limited	100
Telontario Incorporated	100
The North American Telegraph Company	100
Bell Canada — International Management, Research and Consulting Ltd.	100

Prior to August 3, 1976 Bell Canada and Northern Telecom Limited owned respectively 51% and 49% of the common shares of Bell-Northern Research Ltd. On August 3, 1976, the respective ownership was changed to 30% and 70%.

For companies acquired since 1970, the excess of cost of shares over acquired equity is being amortized to earnings over periods not exceeding forty years. Such amortization amounted to $645,000 in 1976 ($118,000—1975).

Bell Canada's summarized income statement, balance sheet and statement of changes in financial position, on a non-consolidated basis are presented on pages 28 to 30.

(1) At December 31, 1976, Bell Canada was the registered owner of 2,172,200 common shares of Maritime Telegraph & Telephone Company, Limited; however, under a statute passed by the Legislature of Nova Scotia, not more than 1,000 shares may be voted by any one shareholder.

(2) At December 31, 1976, Bell Canada was the beneficial owner of 18,307,809 or 69.2% (18,311,199 or 69.2% at December 31, 1975) of the outstanding common shares of Northern Telecom Limited. Assuming exercise of the warrants outstanding at December 31, 1976 the shareholding would be 61.6%. Each warrant entitles the holder to purchase from Bell Canada prior to December 1, 1979 one common share of Northern Telecom Limited at $21.50. At December 31, 1976, 1,995,309 common shares of Northern Telecom Limited were deposited in escrow with the Warrant Trustee for that purpose.

Sales revenues — manufacturing and distributing

	(thousands of dollars)	
	Year 1976	Year 1975
Sales to:		
Bell Canada	$ **531,704**	$ 451,454
Telephone subsidiary and associated companies of Bell Canada	**65,903**	59,484
Sub-total	**597,607**	510,938
Sales to others	**504,267**	509,777
Total sales	**$1,101,874**	$1,020,715

Telecommunication equipment, purchased by Bell Canada and its telephone subsidiaries from Northern Telecom Limited and its subsidiaries, is reflected in the consolidated balance sheet at cost to the purchasing companies, and in the consolidated income statement is included in Sales revenues — manufacturing and distributing. To the extent that any income on these sales and those to associated companies has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. This treatment is generally accepted in the industry. All other significant intercompany transactions have been eliminated in the accompanying consolidated financial statements.

Depreciation

Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets.

When depreciable telecommunication property, other than minor items thereof which are replaced, is retired, the amount at which such property has been carried in telecommunication plant is charged to Accumulated depreciation.

Depreciation expense for the year ended December 31, 1976 was $427,327,000 ($380,739,000 — 1975) and the composite rate was 6.15% (6.15% — 1975).

Maintenance and repairs

The cost of maintenance and repairs of property is expensed as incurred.

Research and development

Research and development costs are charged to income in the years in which they are incurred.

Research and development expense for the year ended December 31, 1976 was $84,302,000 ($68,096,000 — 1975).

Foreign exchange

The accounts of foreign subsidiary companies have been translated into Canadian dollars at exchange rates prevailing at the balance sheet dates for working capital items, at exchange rates prevailing at the respective transaction dates for non-current assets and liabilities (and related depreciation and amortization) and at average exchange rates prevailing during the years for income and expenses (see note 16).

Inventories

Inventories held by the manufacturing and distributing subsidiaries are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work-in-process inventories comprises material, labour and manufacturing overhead.

Interest charged to construction

Regulatory authorities allow the telephone companies to provide for a return on capital invested in new telephone plant while under construction by including "interest charged to construction" as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Income taxes

Bell Canada and all subsidiaries use the tax allocation basis of accounting for income taxes. Reductions in income taxes relating to losses carried forward in subsidiaries are not recorded in the accounts until the date of realization is determined.

Debt due within one year

The 1975 data related to debt due within one year have been reclassified to conform with the presentation followed in 1976.

Investment tax credit

The investment tax credit is included in the balance sheet as "Deferred credits — Other" and is being amortized by credits to income, as a reduction of income taxes, over the average estimated service life of telecommunication property.

2. Equity in net income of associated companies

Equity in net income of associated companies represents Bell Canada's share of net income of companies accounted for by the equity method. The dividends received from these companies amounted to $7,164,000 in 1976 ($5,679,000 — 1975).

3. Income taxes

A reconciliation of the statutory income tax rate in Canada to the effective income tax rate is as follows:

	Year 1976	Year 1975
Statutory income tax rate	**48.0%**	50.2%
i) Interest charged to construction, net of applicable depreciation adjustment	**(0.9)**	(1.4)
ii) Reduction of Canadian Federal taxes applicable to manufacturing profits	**(1.3)**	(2.0)
iii) Other miscellaneous differences between the calculation of taxable income and book income before taxes and outright reductions of taxes for the year resulting from investment tax credits and grants	**(1.4)**	(1.5)
Effective income tax rate....	**44.4%**	45.3%

Details of the Company's income taxes are as follows:

	(thousands of dollars)	
	Year 1976	Year 1975
Current	**$158,618**	$147,218
Deferred	**93,156**	85,171
Total income taxes	**$251,774**	$232,389

Deferred income taxes result from deductions for tax purposes, in respect of plant, being in excess of amounts currently charged to operations.

4. Extraordinary items

	(thousands of dollars)	
	Year 1976	Year 1975
i) Reduction on a consolidated basis (net of minority interest of $975,000) of income taxes arising from the utilization of prior years' tax losses of a subsidiary of Northern Telecom Limited ($0.05 per common share)	**$2,188**	—
ii) Gain on a consolidated basis (net proceeds of $118,112,000 after deducting income taxes of $13,759,000) arising from the sale of 5,250,000 common shares of Northern Telecom Limited ($1.36 per common share)	—	$53,007
iii) Provision (net of income taxes of $2,100,000 and minority interest of $471,000) for costs of terminating the semiconductor business of a subsidiary of Northern Telecom Limited ($0.06 per common share)	—	(2,429)
	$2,188	$50,578

5. Disposal of segment of business

The results for 1975 of continuing and discontinued operations due to the termination in that year of the semiconductor business of a subsidiary of Northern Telecom Limited are as follows:

	(thousands of dollars)
Sales — manufacturing and distributing	
Continuing operations	$1,015,865
Discontinued operations	4,850
	$1,020,715
Consolidated income	
Continuing operations	$ 268,305
Discontinued operations	(3,950)
Extraordinary item	53,007
Net income	$ 317,362
Earnings per common share assuming full conversion of convertible preferred shares and exercise of warrants	
Continuing operations	$ 5.90
Discontinued operations	(0.09)
Extraordinary item	1.18
	$ 6.99

6. Earnings per common share

Earnings per common share are based on average shares outstanding.

For the computation of the earnings per share, assuming full conversion of convertible preferred shares and exercise of warrants issued October 22, 1975, the dividends on convertible preferred shares have been added back to income. The assumption has been made that the proceeds from the exercise of warrants were invested to produce an imputed annual return of 10¾% during 1976 (11% — 1975) before applicable income taxes; the amount of income imputed after income taxes was $6,737,000 ($1,286,000 — 1975).

7. Inventories

Inventories are classified as follows at:

	(thousands of dollars)	
	December 31, 1976	December 31, 1975
Manufacturing and distributing —		
Raw materials	**$ 34,802**	$ 24,599
Work-in-process	**105,662**	111,216
Finished goods	**87,006**	93,531
	$227,470	$229,346

8. Capital stock

Authorized

By charter — $1,750,000,000 divided into common shares of the par value of $25 each, and into preferred shares.

By shareholders — $1,750,000,000 divided into common shares of the par value of $25 each, and: (a) not more than 4,000,000 of a class of preferred shares to a maximum aggregate amount of $100,000,000; (b) not more than 9,000,000 of another class of preferred shares to a maximum aggregate amount of $225,000,000; and (c) not more than 12,000,000 of another class of preferred shares to a maximum aggregate amount of $300,000,000.

Changes in Bell Canada's issued capital stock during 1976 were as follows:

	Outstanding at January 1, 1976	Issued for cash	Conversion of preferred shares	Purchases of preferred shares for cancellation	Outstanding at December 31, 1976
			(dollars in thousands)		
Preferred shares					
Cumulative, redeemable, convertible and voting					
$3.20 shares (par value of $47 per share)					
Number	609,599	—	(218,400)	—	391,199
Total par value	$ 28,651	—	$ (10,265)	—	$ 18,386
$3.34 shares, class B, series B (par value of $52 per share)					
Number	916,047	—	(466,415)	—	449,632
Total par value	$ 47,635	—	$ (24,254)	—	$ 23,381
$4.23 shares, class C, series D (par value of $47 per share)					
Number	1,999,690	—	(3,390)	—	1,996,300
Total par value	$ 93,985	—	$ (159)	—	$ 93,826
$2.28 shares, class C, series E (par value of $25 per share)					
Number	5,000,000	—	(238)	—	4,999,762
Total par value	$ 125,000	—	$ (6)	—	$ 124,994
Cumulative, redeemable and voting					
$2.25 shares, class B, series C (par value of $30 per share)					
Number	1,598,000	—	—	(51,000)	1,547,000
Total par value	$ 47,940	—	—	$(1,530)	$ 46,410
$1.80 shares, class B, series F (par value of $20 per share)					
Number	—	3,500,000	—	—	3,500,000
Total par value	—	$ 70,000	—	—	$ 70,000
Total par value of preferred shares	$ 343,211	$ 70,000	$ (34,684)	$(1,530)	$ 376,997
Common shares					
(par value of $25 per share)					
Number	39,763,689	163,331*	693,321	—	40,620,341
Total par value	$ 994,092	$ 4,084*	$ 17,333	—	$1,015,509

*The common shares issued for cash represent 146,739 shares purchased by employees through assignment of dividends under the provisions of the Employees' Savings Plan (1966) and 16,592 shares issued upon exercise of warrants. The excess of proceeds over par value amounting to $2,343,000 was allocated to Premium on capital stock.

The $3.20 preferred shares have been redeemable since February 1, 1976, at Bell Canada's option, at $47 plus a premium of $3.00 to February 1, 1977, diminishing by $.50 at the end of each subsequent year to February 1, 1982, and thereafter at $47. Each $3.20 preferred share may be converted into one common share on or before February 1, 1982. At December 31, 1976, 1,608,801 of these shares had been converted (including 1,217,046 during 1975 and 218,400 during 1976).

The $3.34 preferred shares, class B, series B, are not redeemable prior to August 1, 1977, but may be redeemed thereafter at Bell Canada's option at $52 plus a premium of $3.00 diminishing by $.50 at the end of each subsequent year to August 1, 1983, and thereafter at $52. The $3.34 preferred shares are convertible into common shares on or before August 1, 1983. Prior to October 22, 1975 they were convertible on a one for one basis; effective that date, the conversion ratio was changed to 1.012 common shares for each preferred share. At December 31, 1976, 1,550,368 of these shares had been converted (including 1,058,578 during 1975 and 466,415 during 1976).

The $4.23 preferred shares, class C, series D, are not redeemable prior to December 1, 1980, but may be redeemed thereafter at Bell Canada's option at $47 plus a premium of $4.00 diminishing by $.70 at the end of each subsequent year to December 1, 1983, by $.60 at December 1, 1984, by $.70 at December 1, 1985, by $.60 at December 1, 1986, and thereafter at $47. Each $4.23 preferred share may be converted into one common share on or before December 1, 1986. At December 31, 1976, 3,700 of these shares had been converted (including 310 during 1975 and 3,390 during 1976).

The $2.28 preferred shares, class C, series E, are not redeemable prior to July 2, 1981, but may be redeemed thereafter at Bell Canada's option at $25 plus a premium of $2.00 diminishing by $.35 at the end of each subsequent year to July 2, 1986, by $.25 at July 2, 1987, and thereafter at $25. Two $2.28 preferred shares may be converted into one common share on or before July 2, 1987. At December 31, 1976, 238 of these shares had been converted; all conversions were in 1976.

The $2.25 preferred shares, class B, series C, are not redeemable prior to October 1, 1983, but may be redeemed thereafter at Bell Canada's option at $30 plus a premium of $1.50 diminishing by $.375 at the end of each subsequent five year period to October 1, 2003, and thereafter at $30. Pursuant to the conditions attaching to this issue of shares at December 31, 1976, 153,000 shares with a par value of $4,590,000 had been purchased and cancelled (including 51,000 shares with a par value of $1,530,000 during 1975 and 51,000 shares with a par value of $1,530,000 during 1976).

The $1.80 preferred shares, class B, series F, are not redeemable prior to October 2, 1986, but may be redeemed thereafter at Bell Canada's option at $20 plus a premium of $1.20 diminishing by $.30 at the end of each subsequent five year period to October 2, 2006, and thereafter at $20.

Common shares reserved at December 31, 1976 — 8,169,849

5,342,407	Shares for issuance upon conversion of all convertible preferred shares.
2,608,408	Shares for issuance upon the exercise of 2,608,408 warrants. These warrants which were issued in October 1975 are exercisable at $46 on or before June 30, 1977.
219,034	Shares for issuance under the Employees' Savings Plan (1966).

9. Long term debt

Bell Canada

First mortgage bonds (secured by a first mortgage and a floating charge)

Maturity Date		Rate of Interest	Series	(thousands of dollars) Authorized and outstanding December 31, 1976
March	1, 1977	3 %	E	$ 35,000
May	1, 1977	8 %	AN	54,400
January	2, 1978	6¼ %	R	35,000
November	1, 1978	7⅝ %	AK	10,000
November	15, 1978	7½ %	AU	25,000
May	15, 1979	3¾ %	K	40,000
June	3, 1979	9¾ %	BF	45,000
December	1, 1979	9⅛ %	AR	25,000
April	1, 1980	8 %	BI	40,000
July	2, 1980	5¼ %	Q	30,000
August	1, 1980	8 %	AX	32,000
April	1, 1981	6 %	AC	13,500
May	1, 1981	7¾ %	BC	15,000
June	1, 1981	4 %	M	24,000
January	2, 1982	5½ %	V	40,000
August	2, 1982	5¾ %	T	50,000
March	15, 1983	4¼ %	P	50,000 (a)
June	15, 1984	5½ %	W	30,000
October	1, 1984	5¾ %	Y	30,000
August	1, 1985-1997	8⅜ %	AZ	26,000 (b)
January	2, 1986	6 %	U	35,000
July	15, 1987	6⅛ %	AE	35,000
May	1, 1988	4⅞ %	X	50,000 (a)
November	1, 1988	6¼ %	AH	50,000
January	15, 1989	9 %	AP	9,466
October	1, 1989	4.80%	Z	50,000 (a)
February	1, 1990	6⅜ %	AG	30,000
May	1, 1990	8¼ %	AO	600
August	14, 1990	9⅜ %	AQ	50,000
April	1, 1991	6 %	AD	26,500
November	1, 1991	7⅝ %	AL	30,000
March	15, 1992	8 %	AT	65,000
September	15, 1992	6¾ %	AI	45,000
April	14, 1993	8 %	AW	50,000
August	1, 1993	8⅜ %	AY	42,000
December	1, 1993	9⅜ %	AS	35,000
April	1, 1994-2003	7⅞ %	BB	40,000 (a,c)
May	1, 1994	8⅛ %	BD	50,000
November	15, 1994	8 %	AV	65,000
December	1, 1994	10½ %	BH	60,000 (d)
June	1, 1995-2004	9½ %	BE	130,000 (a,e)
September	1, 1995	4.85%	AA	50,000 (a)
December	1, 1995	4.85%	AB	28,000 (a)
June	3, 1996	10 %	BG	70,000
October	14, 1996	6 %	AF	44,000 (a)
February	1, 1997	8 %	BA	50,000
December	1, 1997	6.60%	AJ	51,000 (a)
September	17, 1998	6.90%	AM	75,000 (a)
April	1, 1999	9⅞ %	BJ	110,000
				2,076,466
Exchange premium less discount, at time of issue, on first mortgage bonds payable in United States funds				23,926 (f)
Sub-total — first mortgage bonds				2,100,392

Debentures

July	15, 1986	8¾ %	DB	60,000 (a)
April	1, 2006	8¾ %	DA	200,000 (a)
				260,000
Exchange discount, at time of issue, on debentures payable in United States funds				4,820 (f)
Sub-total — debentures				255,180
Sub-total — Bell Canada				2,355,572

Subsidiaries

Northern Telecom Limited (consolidated)	49,896
Newfoundland Telephone Company Limited	63,194
Northern Telephone Limited	25,972
Other	19,668
Sub-total — subsidiaries	158,730 (g)
Sub-total — consolidated	2,514,302
Less: Long term debt due within one year	92,375
Total — consolidated	$2,421,927

(a) Payable in United States funds.

(b) Series AZ bonds mature $2,000,000 per annum on August 1 in each of the years 1985 to 1997 inclusive.

(c) Series BB bonds mature $4,000,000 U.S. per annum on April 1 in each of the years 1994 to 2003 inclusive.

(d) The holder of any series BH bond will have the right to elect, after June 1, 1984 and prior to September 1, 1984, that Bell Canada shall prepay the principal amount of such bonds on March 1, 1985.

(e) Series BE bonds mature $13,000,000 U.S. per annum on June 1 in each of the years 1995 to 2004 inclusive.

(f) Based on the exchange rate at December 31, 1976 the premium on first mortgage bonds would be $4,998,000 and the discount on debentures would be changed to a premium of $2,288,000.

(g) Interest rates and maturity dates of long term debt of subsidiaries are as follows:

	(thousands of dollars)				
Maturity dates*	Interest rates				Total outstanding
	5¼-5⅞%	6-7⅞%	8-9⅞%	10-11½%	
First mortgage bonds					
1977	$ 1,213	$ —	$ —	$ —	$ 1,213
1978	790	500	—	—	1,290
1979	—	820	—	—	820
1980	—	1,700	—	—	1,700
1982-86	—	321	—	—	321
1987-91	3,000	3,000	1,321	—	7,321
1992-96	—	2,500	20,850	27,500	50,850
Debentures and other					
1977	—	413	—	779	1,192
1978	1,420	713	—	485	2,618
1979	—	813	—	587	1,400
1980	—	813	—	653	1,466
1981	585	2,472	—	726	3,783
1982-86	15,019	10,936	2,100	667	28,722
1987-91	—	4,987	33,597	2,000	40,584
1992-96	—	—	1,400	14,050	15,450
	$22,027	$29,988	$59,268	$47,447	$158,730

*Excludes sinking fund requirements.

At December 31, 1976 the amounts of long term debt payable, including sinking fund requirements, by Bell Canada and subsidiary companies in the years 1977 through 1981 are $92,375,000, $74,784,000, $115,836,000, $109,035,000 and $60,153,000 respectively.

10. Debt due within one year

	(thousands of dollars) December 31,	
	1976	1975
Long term debt due within one year	**$ 92,375**	$ 67,217
Notes payable	**79,935**	60,354
Bank advances	**15,288**	17,429
	$187,598	$145,000

It has been the practice for Bell Canada and telephone subsidiaries to employ as interim financing, pending long term financing, debt due in twelve months or less after issuance. In Bell Canada the computation of ratios of debt to total capitalization for regulatory and other purposes includes the debt due within one year.

Additional data with regard to Notes payable

	(dollars in thousands)	
	1976	1975
i) Maximum amount outstanding at any month-end during the year ended December 31	**$115,359**	$ 60,354
ii) Average amount outstanding during the year ended December 31	**$ 90,167**	$ 45,602
iii) Weighted average annual interest rate during the year ended December 31	**8.7%**	8.5%
iv) Weighted average annual interest rate at December 31	**8.0%**	9.5%

11. Commitments

Bell Canada and its subsidiaries are party to certain non-cancellable leases for property and equipment used in the performance of their business. At December 31, 1976 the aggregate minimum annual rental commitments for all such leases, and the commitments for non-capitalized financing leases included therein, are approximately as follows:

	(thousands of dollars)	
	Aggregate	Financing
1977	$47,096	$21,647
1978	36,089	21,030
1979	30,598	17,296
1980	24,181	14,100
1981	19,063	12,512
1982-86	63,493	45,254
1987-91	38,836	35,791
1992-96	28,999	27,100
Thereafter	36,585	32,405

Rental expense for the year ended December 31, 1976 was $77,168,000 ($70,556,000—1975).

Bell Canada has agreed to purchase a mortgage for a sum not to exceed $37,106,000 in the event of mortgage payment default by the owner of a building. In such event the lease commitments mentioned above will be reduced by approximately $74,078,000.

12. Pensions

Bell Canada and most of its subsidiary companies have non-contributory plans which provide for service pensions based on length of service and rates of pay. The actuarial valuations as of December 31, 1975 indicated that all vested benefits were fully funded. The funding programs meet the requirements of Federal and Provincial laws related to pension funding.

The total provisions for the cost of pension plans were $115,066,000 for the year ended December 31, 1976 ($89,341,000 — 1975).

13. Remuneration of officers and directors

During the year 1976, Bell Canada's shareholders were served by 22 directors. As such, their aggregate remuneration from Bell Canada was $233,000. Some of them served also as directors of Northern Telecom Limited, and certain of its subsidiaries; as such their aggregate remuneration was $87,000 from these companies.

Bell Canada had 32 officers during 1976 and their aggregate remuneration as officers was $2,844,000. Three of the officers served also as directors of Bell Canada in 1976.

In addition, payments made by Bell Canada for the benefit of certain of its officers pursuant to special retirement plans amounted to $408,000 for 1976.

14. Canadian anti-inflation legislation

Anti-inflation legislation controlling increases in profit margins, prices, dividends and compensation became effective in Canada on October 14, 1975. The Company, excluding its non-Canadian subsidiaries, is subject to this legislation.

Insofar as prices and profit margins are concerned, the Canadian Radio-television and Telecommunications Commission (the "Commission"), as the body which approves the prices of Bell Canada, has been given the authority regarding the application of the Anti-Inflation Act and the related regulations to Bell Canada. The Commission is granted certain discretion by the Anti-Inflation Act in the application of the regulations to Bell Canada, depending upon the opinion of the Commission as to whether the particular facts of the situation warrant the exercise of such discretion. Under the regulations applicable to 1976, the annual pre-tax profit margin of Bell Canada was generally limited to 95% of Bell Canada's base period margin (its average pre-tax profit margin for the taxation years 1970 through and including 1974). On October 29, 1976, revised regulations governing prices and profit margins were issued. Effective January 1, 1977, the annual pre-tax profit margin allowable to a non-distribution company is reduced from 95% to 85% of the appropriate base period margin, which may be either the average pre-tax profit margin for the taxation years 1970 through and including 1974 or the pre-tax profit margin for the taxation year

1975. An investment credit is also available in 1977 which permits companies to increase the 85% limitation to a maximum of 93.5%.

New regulations governing increases in dividends were issued on October 13, 1976. On January 28, 1977, Bell Canada was informed by the Anti-Inflation Board (the "Board") that it will not intervene if Bell Canada decides to declare an increase in the quarterly dividend rate from 93 cents to $1.02 on the common shares outstanding.

Based on available information, managements of Bell Canada and its Canadian non-manufacturing subsidiaries are of the opinion that their respective companies are in compliance with the statute and regulations applicable to 1976.

With respect to Northern Telecom and its Canadian subsidiary companies, under the regulations applicable to 1976, in the case of sales in Canada attributable to manufacturing operations, prices were to be controlled so that pre-tax profitability was generally restricted to 95% of the average pre-tax profit margin for the taxation years 1970 through and including 1974. In the case of domestic sales attributable to distributing operations, the regulations applicable to 1976 required that prices be restricted generally so that the 1974 gross profit margins were not exceeded. Effective January 1, 1977, the annual pre-tax profit margin allowable to a manufacturing company is reduced from 95% to 85% of the appropriate base period margin, which may be either the average pre-tax profit margin for the taxation years 1970 through and including 1974 or the pre-tax profit margin for the taxation year 1975. An investment credit is also available in 1977 which permits the increase of the 85% limitation to a maximum of 93.5%.

Northern Telecom has agreed with the Board to a compliance plan which defers certain domestic price increases that would otherwise have been effected on February 1, 1977 in order to absorb in 1977 the excess revenue which the Board considers to exist with respect to 1975 and 1976.

As required by the anti-inflation legislation, Bell Canada and its Canadian subsidiaries have provided the Board with full details of labour contracts which have been ratified. These submissions are subject to review and approval by the Board.

15. Quarterly financial data

Summarized consolidated quarterly financial data (in thousands of dollars except per share amounts) for 1976 are as follows:

	Three months ended			
	March 31†	June 30†	September 30	December 31
Total operating revenues	$490,326	$508,436	$521,740	$536,182
Net operating revenues	144,002	141,386	146,199	141,272
Sales revenues — manufacturing and distributing	277,281	305,422	247,542	271,629
Gross profit — manufacturing and distributing	78,624	86,787	72,321	75,081
Income before extraordinary items	74,316	73,681	68,997	70,530
Net income (1)	74,662	74,073	69,680	71,297
Net income applicable to common shares	67,609	67,113	62,847	63,296
Earnings per share before extraordinary items*	1.69	1.67	1.55	1.54
Assuming full conversion of convertible preferred shares and exercise of warrants	1.55	1.54	1.44	1.44
*Based on average common shares outstanding (thousands)	39,815	39,930	40,196	40,476

(1) Includes extraordinary gain of $346,000 ($0.01 per common share), $392,000 ($0.01 per common share), $683,000 ($0.01 per common share) and $767,000 ($0.02 per common share) for the three months ended March 31, 1976, June 30, 1976, September 30, 1976, and December 31, 1976, respectively, representing a reduction of income taxes arising from the utilization of prior years' tax losses of a subsidiary of Northern Telecom Limited.

† Restated — see note 1

16. Translation of foreign currencies

If long term debt payable in U.S. funds had been translated at balance sheet date, according to the United States Financial Accounting Standards Board's Statement No. 8: Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements, consolidated net income would have decreased by \$2,200,000 or \$0.05 per common share for the year ended December 31, 1976 (decreased by \$10,400,000 or \$0.27 per common share — 1975). The effect on consolidated net income by quarters in 1976 would have been as follows: first quarter — increased by \$13,500,000 or \$0.34 per common share; second quarter — increased by \$8,900,000 or \$0.22 per common share; third quarter — decreased by \$1,400,000 or \$0.03 per common share; fourth quarter — decreased by \$23,200,000 or \$0.57 per common share.

17. Replacement cost data (unaudited)

The Company has developed estimates of the replacement cost of the productive capacity represented by its plant investment. Inventories, depreciation expense and cost of sales (manufacturing and distributing) have also been estimated on the basis of replacement cost. These estimates have been prepared in compliance with rules and guidelines issued by the United States Securities and Exchange Commission.

Replacement cost of productive capacity and inventories

The replacement cost data presented below is an estimate of the cost that would be incurred if the productive capacity and inventories were replaced at cost levels existing at December 31, 1976. Land and plant under construction are not revalued but are included at historic cost.

The Company recommends caution in interpreting the significance of the difference between replacement cost and historic cost for the following reasons:

i) The estimates are based on the assumed replacement of productive capacity at December 31, 1976, using a mix of technology appropriate to business conditions existing at that time.

Actual replacement will take place over many years, using a mix of technology appropriate to business conditions existing at those future dates.

ii) The establishment of the estimates involves numerous assumptions and therefore the result must be recognized as only an indication of the replacement cost of productive capacity.

	(millions of dollars) Historic cost at December 31, 1976	At estimated replacement cost
Telecommunication property:		
Subject to replacement cost disclosure	\$ 7,264	\$10,413
Land and plant under construction, included at historic cost	303	303
	7,567	10,716
Less: Accumulated depreciation	2,095	3,584
	5,472	7,132
Assets held under financing leases, at discounted value	72	91
	5,544	7,223
Manufacturing and distributing property:		
Subject to replacement cost disclosure	333	649
Land and other property, included at historic cost	35	35
	368	684
Less: Accumulated depreciation	194	400
	174	284
Assets held under financing leases, at discounted value	15	18
	189	302
Net plant investment	\$ 5,733	\$ 7,525
Inventories	\$ 227	\$ 235

Depreciation expense and cost of sales (manufacturing and distributing)

The Company has estimated the depreciation charge which would be required if the average depreciable plant for the year were valued at its replacement cost, and the cost of sales (manufacturing and distributing) on the basis of replacement cost. These estimates are presented below.

Bell Canada stresses that it would be incorrect to assume that net income as reported in the historic cost financial statements can be adjusted by the additional depreciation expense of $165 million to produce a more meaningful measure of income. The major portion of the increase in cost of sales (manufacturing and distributing) is due to the increase in depreciation expense. In addition to these adjustments, the following factors would have to be considered:

i) The estimates do not cover all assets, liabilities, revenues and expenses and therefore the estimates are incomplete. The effects of these additional elements would have to be included in the measurement of income.

ii) The estimates of replacement cost assume a mix of plant and technology which is different from the plant in place. If the assumed plant and technology were in place, operating and maintenance cost savings would be realized and additional revenues would probably be generated since the newer plant has greater service capabilities. In the opinion of management, such cost savings and additional revenues would be significant in total. It is, however, not possible at this time to estimate them with reasonable accuracy.

These factors together with others such as the cost of additional financing, if necessary, and income tax considerations, make it misleading to recalculate net income.

	(millions of dollars)	
	As stated for year ended December 31, 1976	At estimated replacement cost
Depreciation expense		
Telecommunication property	$ 400	$ 553
Manufacturing and distributing property	27	39
	$ 427	$ 592
Cost of sales (manufacturing and distributing)	$ 789	$ 807

Replacement cost estimation procedures

In the case of telecommunication property where there have been significant technological improvements, the Company assumed that productive capacity would be replaced with the most modern technology that could be justified in terms of the foreseen demand for the services. For this reason, latest technology was not assumed to replace all existing capacity.

The specific method used to develop replacement cost data was tailored to the characteristics of the assets being evaluated, as follows:

Central office equipment — current acquisition cost of equipment used to meet currently foreseen demand. The equipment replacement pattern that was assumed provides for slightly more than half of Bell Canada's subscribers to be served by the most technically advanced electronic switching systems, as opposed to slightly more than 10% that are currently served in this manner.

Outside plant — current construction cost per conductor mile.

Station equipment — current acquisition cost per unit.

Buildings — current construction cost per square foot of space.

Tools and vehicles — current acquisition cost per unit.

In the case of manufacturing and distributing property, replacement costs were estimated by using current acquisition costs or indices specifically developed for several major categories. Present business conditions, current technology and the Company's normal approach to replacement of capacity were assumed.

Replacement cost of inventories was estimated to reflect current cost of material, labour and expense.

Depreciation expense was estimated based on the average replacement cost for the year of the depreciable assets. The depreciation charge was calculated on a straight line basis, using the same useful lives for the assets as is used in the historic cost financial statements.

Cost of sales (manufacturing and distributing) was estimated on the basis of replacement cost by adjusting historic cost for the increase in costs between the time of manufacture and the time of sale.

18. Subsequent event

On February 15, 1977 Bell Canada issued and sold to underwriters $150,000,000 principal amount of its 9.40% debentures, series DC to mature on February 15, 2002 for the sum of $147,825,000.

Summarized Income Statement — Non-Consolidated (Note 1)

	(thousands of dollars)	
	Year 1976	Year 1975
Operating revenues		
Local service	**$ 990,259**	$ 878,257
Long distance service	**867,679**	753,581
Miscellaneous — net	**45,986**	34,032
Total operating revenues	**1,903,924**	1,665,870
Operating expenses	**1,372,123**	1,175,693
Net operating revenues	**531,801**	490,177
Other income		
Dividends — from subsidiary companies	**18,172**	19,854
— from associated companies	**6,971**	5,679
Interest charged to construction	**14,734**	17,231
Miscellaneous	**25,350**	10,576
Total other income	**65,227**	53,340
Income before underlisted items	**597,028**	543,517
Interest charges	**172,570**	156,218
Income before income taxes and extraordinary item	**424,458**	387,299
Income taxes	**185,825**	174,243
Income before extraordinary item	**238,633**	213,056
Extraordinary item*	**—**	92,597
Net income	**238,633**	305,653
Dividends on preferred shares	**28,847**	24,845
Net income applicable to common shares	**$ 209,786**	$ 280,808

*Gain, on a non-consolidated basis, net of income taxes of $13,759,000 arising from the sale of 5,250,000 common shares of Northern Telecom Limited, computed by deducting from the net proceeds the average cost to Bell Canada of such shares amounting to $25,515,000.

Earnings per common share†		
— before extraordinary item	**$5.23**	$4.83
— extraordinary item	**—**	$2.37
— after extraordinary item	**$5.23**	$7.20
Assuming full conversion of convertible preferred shares and exercise of warrants		
— before extraordinary item	**$4.96**	$4.68
— extraordinary item	**—**	$2.06
— after extraordinary item	**$4.96**	$6.74
Dividends declared per common share	**$3.58**	$3.44
†Based on average common shares outstanding (thousands)	**40,106**	38,998

Summarized Balance Sheet — Non-Consolidated (Note 1)

	(thousands of dollars)	
	December 31 1976	December 31 1975
Assets		
Telecommunication property — at cost		
Buildings, plant and equipment	**$6,815,786**	$6,113,945
Less: Accumulated depreciation	**1,999,212**	1,752,933
	4,816,574	4,361,012
Land, and plant under construction	**292,260**	246,594
Material and supplies	**100,424**	72,857
	5,209,258	4,680,463
Investments — at cost		
Subsidiary companies	**215,563**	215,067
Associated companies	**107,971**	107,944
	323,534	323,011
Current assets	**346,490**	405,539
Deferred charges	**28,295**	26,947
Total assets	**$5,907,577**	$5,435,960
Liabilities and shareholders' equity		
Shareholders' equity		
Capital stock		
Preferred shares	**$ 376,997**	$ 343,211
Common shares	**1,015,509**	994,092
Premium on capital stock	**460,878**	441,213
Retained earnings	**659,912**	595,644
	2,513,296	2,374,160
Long term debt	**2,266,172**	2,100,392
Current liabilities	**451,205**	373,283
Deferred credits		
Income taxes	**657,966**	570,328
Other	**18,938**	17,797
	676,904	588,125
Total liabilities and shareholders' equity	**$5,907,577**	$5,435,960

Summarized Statement of Changes in Financial Position — Non-Consolidated (Note 1)

	(thousands of dollars)	
	Year 1976	Year 1975
Source of funds		
Operations		
Income before extraordinary item	**$ 238,633**	$ 213,056
Items not affecting current funds —		
Depreciation	**381,878**	338,260
Interest charged to construction	**(14,734)**	(17,231)
Other — net	**94,567**	85,260
Total from operations	**700,344**	619,345
Net proceeds from the sale by Bell Canada of common shares of a subsidiary	**—**	118,112
Proceeds from long term debt	**251,031**	214,953
Proceeds from preferred shares	**68,248**	123,336
Issue of common shares upon conversion of convertible preferred shares	**34,655**	112,258
Miscellaneous	**12,371**	13,544
Decrease in working capital	**136,971**	—
	$1,203,620	$1,201,548
Disposition of funds		
Capital expenditures —		
Gross capital expenditures	**$ 900,692**	$ 809,635
Deduct: charges not requiring funds	**(25,221)**	(26,639)
Increase (decrease) in material and supplies	**27,567**	(5,619)
Net expenditures	**903,038**	777,377
Dividends	**172,816**	160,263
Reduction of long term debt	**89,400**	60,534
Acquisition of investments	**1,670**	6,088
Conversion of preferred shares	**34,684**	112,261
Miscellaneous	**2,012**	2,156
Increase in working capital	**—**	82,869
	$1,203,620	$1,201,548

Auditors' Report

The Shareholders, Bell Canada

We have examined the consolidated balance sheet of Bell Canada as at December 31, 1976 and 1975 and the consolidated statements of income, retained earnings, premium on capital stock, contributed surplus and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and 1975 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Chartered Accountants

Montreal, Que.
February 18, 1977.

Bell Canada
and Subsidiary Companies

Summary of Operations

	(thousands of dollars)				
	Year ended December 31,				
	1976	1975†	1974†	1973†	1972†
Operating revenues	**$2,056,684**	$1,790,971	$1,549,457	$1,364,158	$1,191,563
Operating expenses	**1,483,825**	1,268,549	1,091,378	939,790	812,736
Net operating revenues	**572,859**	522,422	458,079	424,368	378,827
Sales revenues — manufacturing and distributing	**1,101,874**	1,020,715	972,226	613,772	535,025
Cost of sales	**789,061**	738,133	720,765	452,996	406,137
Selling, general, administrative and other expenses	**183,582**	155,504	144,299	99,278	83,078
Net sales revenues	**129,231**	127,078	107,162	61,498	45,810
Total net revenues	**702,090**	649,500	565,241	485,866	424,637
Other income	**56,560**	38,258	29,743	27,467	16,782
Income before underlisted items	**758,650**	687,758	594,984	513,333	441,419
Interest charges	**191,581**	175,144	143,937	125,699	108,763
Income taxes	**251,774**	232,389	224,376	190,794	157,488
Minority interest	**27,771**	13,441	2,235	(3,135)	(1,226)
	471,126	420,974	370,548	313,358	265,025
Income before extraordinary items	**287,524**	266,784	224,436	199,975	176,394
Extraordinary items	**2,188 (a)**	50,578 (a)	—	5,396	(908)
Net income	**289,712**	317,362	224,436	205,371	175,486
Dividends on preferred shares	**28,847**	24,845	17,594	14,020	13,079
Net income applicable to common shares	**$ 260,865**	$ 292,517	$ 206,842	$ 191,351	$ 162,407
Earnings per common share*					
— before extraordinary items	**$6.45**	$6.20	$5.57	$5.04	$ 4.44
— extraordinary items	**$0.05**	$1.30	—	$0.14	$(0.03)
— after extraordinary items	**$6.50**	$7.50	$5.57	$5.18	$ 4.41
Assuming full conversion of convertible preferred shares and exercise of warrants					
— before extraordinary items	**$5.97**	$5.87	$5.34	$4.86	$ 4.32
— extraordinary items	**$0.04**	$1.12	—	$0.13	$(0.02)
— after extraordinary items	**$6.01**	$6.99	$5.34	$4.99	$ 4.30
Dividends declared per common share	**$3.58**	$3.44	$3.12	$2.85	$ 2.65
* Based on average common shares outstanding (thousands)	**40,106**	38,998	37,128	36,931	36,808

The effect on sales, consolidated net income and earnings per common share(1) resulting from the discontinuation in 1975 of the semiconductor business of a subsidiary of Northern Telecom Limited is as follows:

	1975	1974	1973	1972
Sales — manufacturing and distributing				
Continuing operations	$1,015,865	$948,514	$597,821	$527,182
Discontinued operations	4,850	23,712	15,951	7,843
	$1,020,715	$972,226	$613,772	$535,025
Consolidated income				
Continuing operations	$ 268,305	$232,001	$205,991	$178,927
Discontinued operations	(3,950)	(7,565)	(6,016)	(2,533)
Extraordinary items	53,007	—	5,396	(908)
Net income	$ 317,362	$224,436	$205,371	$175,486
Earnings per common share (1)				
Continuing operations	$ 5.90	$ 5.52	$ 5.01	$ 4.38
Discontinued operations	$(0.09)	$(0.18)	$(0.15)	$(0.06)
Extraordinary items	$ 1.18	—	$ 0.13	$(0.02)
	$ 6.99	$ 5.34	$ 4.99	$ 4.30

(1)Assuming full conversion of convertible preferred shares and exercise of warrants.
†*Restated — see note 1 of the Notes to Financial Statements.*
(a)See note 4 of the Notes to Financial Statements.

Management's Discussion and Analysis of Summary of Operations

Total operating revenues
Total operating revenues rose 14.8% in 1976 and 15.6% in 1975, reflecting the effect of rate awards and increased demand for local and long distance telecommunication services. Bell Canada received rate awards in September 1974, August 1975 and January 1976, which were estimated at $47.9 million, $31.1 million and $71.1 million respectively, on an annualized basis. Application for a further rate award was filed by Bell Canada on November 3, 1976. The number of long distance messages increased to approximately 556 million in 1976, from 517 million in 1975 and 471 million in 1974, or increases of 7.5% in 1976 and 9.8% in 1975. Miscellaneous revenues increased 27.7% in 1976 and 13.3% in 1975 reflecting primarily increased revenues from directory operations.

Operating expenses
Operating expenses increased $215.3 million or 17.0% in 1976, and $177.2 million or 16.2% in 1975. Employee-related expenses increased as a result of higher wage rates and growth in business. Demand for telecommunication services necessitated increases in investment in depreciable plant in service (percentage increases were 11.6% in 1976 and 12.9% in 1975), which resulted in increased depreciation (increase of $46.7 million or 13.2% in 1976, and $53.0 million or 17.6% in 1975). Approximately 30% of the increase in 1975 depreciation expense was attributable to revised depreciation rates due to modified service lives of certain categories of plant. Maintenance expense increased $38.1 million or 13.2% in 1976, and $26.7 million or 10.2% in 1975 due mainly to higher wage rates coupled with increased work volumes. Increases in service pension costs also contributed to higher operating expenses.

Net sales revenues — manufacturing and distributing
Sales revenues were $1,101.9 million in 1976, compared to $1,020.7 million in 1975, showing an improvement of 8.0% which was due principally to higher prices and to higher volumes of switching and subscriber equipment products, somewhat offset by lower volume of transmission products. Sales revenues in 1975 were 5.0% higher than the 1974 sales of $972.2 million, largely the result of price increases, with volume gains in the switching and transmission product groups, offset by declines in wire and cable volumes.

Cost of sales, represented largely by material and wage and salary costs, continued to escalate in 1976 but at a slower pace than in 1975 and 1974. The gross margin improved to 28.4% in 1976 compared to 27.7% in 1975 and 25.9% in 1974. These improvements were achieved by continuing major efforts over the three years to effect productivity gains and cost reduction programs, as well as the implementation of certain price increases in all three years.

Selling, general and administrative expenses of $121.8 million in 1976 increased 16.4% from 1975 expenses of $104.7 million. In 1975 there was an increase of 8.3% over 1974 expenses of $96.7 million. As a percentage of sales, these expenses were 11.1% compared to 10.3% in 1975 and 9.9% in 1974. The increases in both years were principally due to Northern Telecom Limited's expansion of selling and marketing activities, particularly in the United States and international markets, and higher costs for compensation and benefits.

Other expenses, mainly research and development expenses related to manufacturing operations and consisting primarily of compensation and benefits costs, were $61.8 million in 1976 compared to $50.8 million in 1975 and $47.6 million in 1974. As a percentage of sales, these expenses were 5.6%, up from 5.0% in 1975 and 4.9% in 1974. These increases reflect the higher level of research and development activity associated with developing a complete family of digital products, and Northern Telecom Limited's decision to maintain its level of research and development programs, following repeal in 1976 of the Canadian Industrial Research and Development Incentives Act under which Northern Telecom Limited had received $4.4 million in 1975 and $3.3 million in 1974.

Other income
Total other income increased by approximately $18.3 million in 1976, primarily attributable to higher temporary cash investments coupled with higher interest rates earned. Equity in net income of associated companies increased throughout the periods under discussion due to higher earnings of these companies. Interest charged to construction increased by $3.2 million in 1975 due to increases in average plant under construction during the year. The decrease of $2.7 million in 1976 in interest charged to construction reflects completion of many major construction programs in 1975.

Total interest charges
Interest expense on additional debt issued to finance construction programs and the effect of refunding matured debt at higher interest rates contributed to increased interest charges in 1976 and 1975. Percentage increases were 9.4% in 1976 and 21.7% in 1975. The average embedded cost of debt (on a consolidated basis) was 7.5% in 1976, compared to 7.4% in 1975 and 6.9% in 1974.

Income taxes
Income taxes rose 8.3% and 3.6% in 1976 and 1975, respectively, primarily as a result of higher earnings partially offset by reductions in the statutory tax rate.

Minority interest
In December 1973 Northern Telecom Limited sold common shares to the public. In October 1975 Bell Canada sold approximately 20% of the outstanding common shares of Northern Telecom Limited by way of a public offering. The foregoing, coupled with increased consolidated earnings by Northern Telecom Limited, gave rise to increases in the minority interest of $14.3 million and $11.2 million in 1976 and 1975, respectively.

Extraordinary items
The extraordinary gain of $2.2 million in 1976 represents a reduction of income taxes arising from the utilization of prior years' tax losses of a subsidiary.

In 1975 Bell Canada realized an extraordinary gain, net of income taxes of $14 million, of approximately $53 million (on a consolidated basis) from the sale of 5,250,000 common shares of Northern Telecom Limited. In 1975, there was also an extraordinary loss of $2.4 million, net of income taxes and minority interest, representing a provision for costs of terminating the semiconductor business of a subsidiary.

Price Ranges and Dividends Paid — Common and Preferred Shares

Price Ranges (a)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
1976								
Common (b)	$47¼	$42⅞	$48⅛	$44¾	$51⅛	$47⅛	$50⅜	$44⅞
$3.20 Preferred	$47	$43	$47¾	$45¼	$51	$47⅛	$50	$45¾
$3.34 Preferred	47¼	44¼	48⅛	45	51	47⅜	50⅝	45⅜
$4.23 Preferred	50½	47⅝	50½	48⅜	52⅜	49½	52½	46¾
$2.28 Preferred	27	25½	27⅛	25½	27½	26	28	24⅞
$2.25 Preferred	26	24¼	26	24¼	26	25	26¼	24¼
$1.80 Preferred	—	—	—	—	—	—	20¾	19⅜
1975								
Common	$48⅜	$43½	$47⅜	$44¼	$45	$40¾	$44⅜	$40¾
$3.20 Preferred	$47¾	$43⅝	$47¼	$44	$44¾	$40¾	$44	$41
$3.34 Preferred	48⅛	43⅞	47	44⅜	44⅞	41	44¼	40⅞
$4.23 Preferred	54	44⅞	52½	47⅞	50¼	45¼	49⅜	45¼
$2.28 Preferred	—	—	—	—	26¾	24¼	26⅝	24½
$2.25 Preferred	29	25¾	27¼	23¾	26	24	25¾	24½

Dividends Paid

Common shares

1976	$0.86	$0.86	$0.86	$0.93
1975	$0.78	$0.86	$0.86	$0.86

Preferred shares

The indicated rates are annual rates and dividends have been paid quarterly since dates of issue.

(a) The table shows market prices on the Toronto Stock Exchange. The common and preferred shares are also listed on the Montreal and Vancouver Stock Exchanges in Canada. The common shares are also listed on the Stock Exchanges of Amsterdam, Basle, Brussels, Dusseldorf, Frankfurt am Main, Geneva, London, New York, Paris and Zurich.

(b) Bell Canada common shares have been listed on the New York Stock Exchange since August 18, 1976. High and low prices (U.S. dollars) were $52½ and $44½, respectively, for the period ending December 31, 1976.

Benefits and Pensions

Bell Canada's Employee Benefit Program is comprehensive; it provides coverage for medical expenses and earnings lost due to sickness or accident absence; a basic retirement income; protection for dependents through death benefits and low cost life insurance; a plan for systematic savings. Together with various government plans, the Company's plans furnish a program of financial security for employees and pensioners. The Company pays the full cost of the program, except as noted.

Payments made by Bell Canada for 1976 include:

Pensions and Annuities	**$ 79,160,000**
— Royal Trust Company is Trustee of the Pension Fund	
— the fund is committed irrevocably to service and deferred pension purposes	
Sickness Benefits	**18,629,000**
— provincial hospital and medical insurance coverage	
— additional hospital and medical services and supplies	
— sickness, on-duty and off-duty accident absence	
— long term disability benefits; disability pensions	
Death Benefits	**4,328,000**
— death benefit, payable to eligible dependent relatives	
— Group Life Insurance: Part 1, cost-shared insurance Part 2, employee-paid term insurance Part 3, cost-shared survivor income benefit	
Employees' Savings Plan	**7,001,000**
— Company contributes $1 for every $3 subscribed by employee (up to 6% of salary) towards purchase of Bell Canada shares, which are purchased on the open market by the Trustee	
Other Payments	**17,905,000**
— Statutory contributions to the Canada and Quebec Pension Plans, Quebec Health Insurance Plan, Workmen's Compensation, Unemployment Insurance	
Total	**$127,023,000**

Statistical Summary

Bell Canada — Consolidated Data	1976	1975	1974	1973	1972
Income Statement Items (thousands of dollars)†					
Operating revenues	**$2,056,684**	$1,790,971	$1,549,457	$1,364,158	$1,191,563
Sales revenues — manufacturing and distributing	**1,101,874**	1,020,715	972,226	613,772	535,025
Income before extraordinary items	**287,524**	266,784	224,436	199,975	176,394
Net income	**289,712**	317,362	224,436	205,371	175,486
Preferred dividends	**28,847**	24,845	17,594	14,020	13,079
Net income applicable to common shares	**260,865**	292,517	206,842	191,351	162,407
Balance Sheet Items (thousands of dollars)†					
Total property — net*	**$5,645,680**	$5,068,778	$4,580,022	$4,047,907	$3,711,943
Preferred equity*	**376,997**	343,211	332,002	248,988	197,991
Common equity*	**2,298,126**	2,142,810	1,870,681	1,768,322	1,670,192
Minority interest*	**161,143**	128,315	42,440	42,314	16,555
Long term debt* (including current portion)	**2,514,302**	2,315,784	2,175,186	1,910,981	1,771,552
Capital expenditures	**994,878**	895,295	870,734	616,134	551,116
Common Share Data					
Earnings per common share					
— before extraordinary items	**$6.45**	$6.20	$5.57	$5.04	$4.44
— after extraordinary items	**$6.50**	$7.50	$5.57	$5.18	$4.41
Assuming full conversion of convertible preferred shares and exercise of warrants					
— before extraordinary items	**$5.97**	$5.87	$5.34	$4.86	$4.32
— after extraordinary items	**$6.01**	$6.99	$5.34	$4.99	$4.30
Dividends per common share	**$3.58**	$3.44	$3.12	$2.85	$2.65
Equity per common share*	**$56.58**	$53.89	$50.10	$47.79	$45.30
Average common shares outstanding (thousands)	**40,106**	38,998	37,128	36,931	36,808
Per cent of common shares held in Canada*	**96.7**	97.9	96.0	96.0	95.9
Number of shareholders (including preferred)*	**225,457**	231,689	230,630	237,458	240,950

Bell Canada — Non-Consolidated Data	1976	1975	1974	1973	1972
Income Statement Items (thousands of dollars)					
Operating revenues	**$1,903,924**	$1,665,870	$1,440,123	$1,275,204	$1,125,416
Operating expenses	**1,372,123**	1,175,693	1,010,715	875,988	766,414
Other income	**65,227**	53,340	44,630	39,278	32,203
Interest charges	**172,570**	156,218	127,590	113,225	98,701
Income taxes	**185,825**	174,243	161,138	149,759	126,808
Income before extraordinary items	**238,633**	213,056	185,310	175,510	165,696
Net income	**238,633**	305,653	185,310	180,906	164,788
Per cent return on total capital — before extraordinary items	8.7	8.5	8.0	7.9	7.8
Interest in per cent of total average debt	7.4	7.2	6.7	6.4	6.2
Times interest charges earned — before extraordinary items					
— before income taxes	3.5	3.5	3.7	3.9	4.0
— after income taxes	2.4	2.4	2.5	2.6	2.7
Balance Sheet Items (thousands of dollars)					
Telecommunication property — net*	**$5,209,258**	$4,680,463	$4,231,486	$3,754,816	$3,454,364
Investments*	**323,534**	323,011	343,819	319,674	318,199
Preferred equity*	**376,997**	343,211	332,002	248,988	197,991
Common equity*	**2,136,299**	2,030,949	1,769,539	1,705,811	1,640,672
Long term debt* (including current portion)	**2,355,572**	2,160,926	1,983,453	1,772,238	1,652,238
Capital expenditures	**900,692**	809,635	783,103	554,218	507,716
Other Statistics					
Telephones in service*	**8,301,433**	7,888,581	7,518,505	7,102,308	6,742,184
Local calls (thousands)	**11,064,275**	10,560,102	10,390,353	9,849,738	9,464,990
Long distance messages (thousands)	**528,019**	490,627	448,438	395,851	350,951
Number of employees*	**48,133**	44,904	46,484	43,033	40,953
Salary and wage payments (thousands of dollars)	**$646,379**	$561,232	$487,116	$421,841	$376,129

*At December 31

†Years 1972 to 1975 have been restated — see note 1 of the Notes to Financial Statements.

The following publications are available to shareholders, without charge, upon written request to:
The Secretary
Bell Canada
1050 Beaver Hall Hill
Montreal, Quebec
H3C 3G4

Form 10-K
Bell Canada's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission in the United States.

Shareholder Dividend Reinvestment Plan Brochure
Outlines a dividend reinvestment and stock purchase plan provided by the Company for the benefit of common shareholders.

Annual Statistical Report
Intended for those desiring further data on our operations.

Bell Canada, part of
Trans-Canada Telephone System

Printed in Canada

AR04

contract with the Communications Union Canada covering some 8,000 operators and dining service employees expired in November, 1976. Following extended negotiations, the CUC sought conciliation assistance from the federal Department of Labour in December. A conciliation officer has been appointed and meetings got under way in January.

Negotiations on a new contract with the Communications Workers of Canada, representing approximately 13,000 craft and service employees, culminated in December with the filing of a report by a conciliation commissioner to the Minister of Labour. The Company accepted the report and made an offer incorporating its proposals. The union then submitted the offer to a membership vote. Late in January, the CWC announced that its members had voted in favor of accepting the Company's offer, and a contract was signed on February 4.

Dividends Increased

During the quarter common dividends were increased for the fifth successive year. The Anti-Inflation Board had deferred approval of a requested increase in April but later authorized the Company to raise the common dividend in October by seven cents to 93 cents quarterly. This brought the indicated annual common dividend rate to \$3.72, compared with \$3.44 previously.

Late in January, 1977, the Company was informed by the Anti-Inflation Board that it will not intervene if the Board of Directors decides to declare a further increase in the quarterly common dividend rate from 93 cents to \$1.02. Such an increase will be considered by Bell Canada's Board of Directors at its next meeting on February 23. If declared, the increased dividend would be payable on April 15. The indicated annual common dividend rate would be \$4.08.

Executive Changes

J. E. Sinclair, formerly Deputy Comptroller (Operations), was appointed Vice-President (Systems). J. E. Skinner, Temporary Vice-President (Systems), returned to his former position of Vice-President (Administration), Ontario Region.

A. Jean de Grandpré, Chairman

February 9, 1977

Printed in Canada

Bell Canada 1976

Year-end Report to the Shareholders

Bell Canada and Subsidiary Companies
Consolidated Income Statement

	(thousands of dollars)			
	Three months ended December 31		Twelve months ended December 31	
	1976	1975(1)	1976	1975(1)
Operating revenues	$536,182	$480,609	$2,056,684	$1,790,971
Operating expenses	394,910	323,895	1,483,825	1,268,549
Net operating revenues	141,272	156,714	572,859	522,422
Sales revenues — manufacturing and distributing	271,629	235,452	1,101,874	1,020,715
Cost of sales and expenses	242,850	212,229	972,643	893,637
Net sales revenues	28,779	23,223	129,231	127,078
Total net revenues	170,051	179,937	702,090	649,500
Other income				
Interest charged to construction	4,363	4,540	15,559	18,249
Equity in net income of associated companies	3,042	3,128	11,705	8,357
Miscellaneous	8,939	3,776	29,296	11,652
Income before underlisted items	186,395	191,381	758,650	687,758
Interest charges	49,581	44,657	191,581	175,144
Income taxes	59,298	64,406	251,774	232,389
Minority interest	6,986	5,709	27,771	13,441
	115,865	114,772	471,126	420,974
Income before extraordinary items	70,530	76,609	287,524	266,784
Extraordinary items(2)	767	53,007	2,188	50,578
Net income	71,297	129,616	289,712	317,362
Dividends on preferred shares	8,001	7,158	28,847	24,845
Net income applicable to common shares	$ 63,296	$122,458	$ 260,865	$ 292,517
Earnings per common share*				
— before extraordinary items	$1.54	$1.75	$6.45	$6.20
— extraordinary items	$0.02	$1.33	$0.05	$1.30
— after extraordinary items	$1.56	$3.08	$6.50	$7.50
Assuming full conversion of convertible preferred shares and exercise of warrants				
— before extraordinary items	$1.44	$1.60	$5.97	$5.87
— extraordinary items	$0.01	$1.11	$0.04	$1.12
— after extraordinary items	$1.45	$2.71	$6.01	$6.99
Dividends declared per common share	$0.93	$0.86	$3.58	$3.44
*Based on average common shares outstanding (thousands)	40,476	39,715	40,106	38,998

(1) In 1976, the investments in Maritime Telegraph and Telephone Company, Limited and The New Brunswick Telephone Company, Limited which were fully consolidated in 1975, are carried on the equity basis because Bell Canada's ownership in common shares of these companies was reduced to less than 50% in the third quarter of 1976. For comparative purposes the 1975 figures have been restated to reflect the equity accounting for these investments. However, this restatement had no effect on the net income.

G. L. Henthorn, *Vice-President & Comptroller*

Consolidated Statement of Changes in Financial Position

	(thousands of dollars) Twelve months ended December 31	
	1976	1975(1)
Source of funds		
Operations —		
Income before extraordinary items	$ 287,524	$ 266,784
Items not affecting current funds —		
Depreciation	427,327	380,739
Deferred income taxes	93,156	85,171
Interest charged to construction	(15,559)	(18,249)
Other — net	33,462	17,854
Total from operations	825,910	732,299
Extraordinary item (2)	2,188	—
Net proceeds from the sale by Bell Canada of common shares of a subsidiary (2)	—	118,112
Proceeds from long term debt	279,333	234,004
Proceeds from preferred shares	68,248	123,336
Proceeds from issues of shares by subsidiaries to minority shareholders	11,748	13,982
Issue of common shares upon conversion of convertible preferred shares	34,655	112,258
Miscellaneous	33,023	17,216
Decrease in working capital	106,308	—
	$1,361,413	$1,351,207
Disposition of funds		
Capital expenditures —		
Gross capital expenditures	$ 994,878	$ 895,295
Deduct: charges not requiring funds	(26,064)	(27,981)
Increase (decrease) in material and supplies	26,351	(4,778)
Net expenditures	995,165	862,536
Extraordinary item (2)	—	2,429
Dividends by Bell Canada	172,816	160,263
Dividends by subsidiaries to minority shareholders	8,600	4,147
Reduction of long term debt	112,823	112,275
Acquisition of investments	34,582	8,234
Conversion of preferred shares	34,684	112,261
Miscellaneous	2,743	3,121
Increase in working capital	—	85,941
	$1,361,413	$1,351,207

(2) Extraordinary items

1976 — reduction of income taxes arising from the utilization of prior years' tax losses of a subsidiary of Northern Telecom Limited, after deducting minority interest of $342,000 and $975,000 respectively for the three month and twelve month periods ended December 31, 1976.

1975 — gain of $53,007,000 (net proceeds of $118,112,000 after deducting income taxes of $13,759,000) arising from the sale of 5,250,000 common shares of Northern Telecom Limited.

— provision of $2,429,000 after deducting income taxes of $2,100,000 and minority interest of $471,000, for costs of terminating the semiconductor business of a subsidiary of Northern Telecom Limited.

Bell Canada's unaudited consolidated earnings per common share, before extraordinary items, for 1976 were \$6.45, compared to \$6.20 for 1975. Consolidated earnings per common share, before extraordinary items, for the fourth quarter were \$1.54, compared to \$1.75 the previous year. The decrease in quarterly earnings was due mainly to the failure of revenues to keep pace with increases in expenses.

For the year, total consolidated revenues were \$3,158.6 million (\$2,811.7 million), and, for the quarter, \$807.8 million (\$716.1 million). For the 12 months, income before extraordinary items was \$287.5 million (\$266.8 million), and, for the quarter, \$70.5 million (\$76.6 million).

These results reflect the inclusion of The New Brunswick Telephone Company, Limited, and Maritime Telegraph and Telephone Company, Limited, contributions to earnings on an equity basis rather than on a fully consolidated basis.

For the year, non-consolidated earnings, before extraordinary item, were \$5.23 per common share, compared to \$4.83 last year; for the quarter, earnings, before extraordinary item, were \$1.24 per share, compared to \$1.49 in 1975. For the year, non-consolidated operating revenues totalled \$1,903.9 million (\$1,665.9 million), and, for the quarter, \$494.8 million (\$446.9 million). Income before extraordinary item for the year was \$238.6 million (\$213.1 million) and, for the quarter, \$58.1 million (\$66.4 million).

During the year, to meet the demand for telecommunication services, consolidated capital expenditures rose to a record level of \$994.9 million.

Rate Application

Bell Canada's rate application, filed on November 3 with the Canadian Radio-television and Telecommunications Commission, seeks approval for a new schedule of rates which, if in effect from March 15, was designed to add an estimated 6.5 per cent to revenues in 1977.

In 1974, the Canadian Transport Commission decided that a reasonable rate of return on common equity for Bell Canada would be 11 to 12 per cent. The minimum of that range has not been reached. In today's circumstances it is estimated that a reasonable rate of return on the Company's common equity would be in the range of 13 to 15 per cent. However, taking into account the fight against inflation and the need for restraint, Bell Canada applied for an increase in rates that was designed to produce a 12 per cent return on common equity in 1977, the level considered reasonable more than two years ago. Since the application was filed, adverse changes in the economic climate have made it more imperative than ever that increased rates come into effect as soon as possible.

Included in the application is a proposal to improve and upgrade rural telephone service by reducing to four the maximum number of parties per line. Starting in 1977, the project would take five years to complete.

No date for hearings on the application had been set by the CRTC at the time this report was prepared.

Charter Amendments

A Bill to amend Bell Canada's charter was introduced in the Senate of Canada on December 1. Following scrutiny by the Senate Committee on Transport and Communications, Bill S-2 was approved without change by the Senate as the Bill received third reading. The Bill was then submitted to the House of Commons where it received first reading before the House recessed prior to Christmas.

One of the Bill's basic objectives is to raise the Company's maximum authorized capital from \$1.75 billion to \$5 billion. Another is to modernize the financial provisions of the Company's Act of Incorporation to allow Bell Canada the same range of financing options and arrangements that are available to its competitors in the financial marketplace. These would include the general borrowing power granted to most companies, authority to split the stock if desirable and permission to issue capital stock without having to obtain from the regulatory agency specific prior approval of the terms of each issue.

Labour Relations

In November, 1976, new one-year contracts (effective from December 1) were signed with the Canadian Telephone Employees' Association, representing approximately 15,000 clerical and communications sales personnel.